

282.8
Am 3

LIBRARY
RECEIVED
AUG 4 1936

PUBLISHED QUARTERLY



C O N T E N T S

2



Rationalizing Appraisal Practice

Bracketing in Appraising

Appraising as a Profession

Advertising by Appraisers

Residential District Permutations

Preferential Treatment of Industrial Realty

Appraisal of Water Front Real Estate

Gross Income as an Index of Value

Urban Land Valuation

VOL. IV, No. 3

JULY, 1936

COMPLETE YOUR LIBRARY

A few copies of earlier issues of *The Journal of the American Institute of Real Estate Appraisers* are available. Feature articles in some of the recent issues are listed below.

VOL. III, NO. 2—JANUARY, 1935 . . . \$1.25

The Capitalization Process	Ayers J. duBois
Appraising Single Family Homes	Charles B. Shattuck
Effect of Credit and Production on Prices	Loring O. McCormick
Central Business Property Paradox	Walter R. Kuehnle
Capitalization Rates for Long-Term Leases	George Robert Quin
Appraisal of Citrus Lands	L. C. Nourse
A New Approach to Rural Appraising	Hudson Burr
Consequential Damages	Othelbert E. Reeves
Analysis of Office Building Expense	George A. Kuhn
The Chartered Surveyor's Institution	J. Mater
Appraising under the Federal Securities Act	Andrew C. Hamilton

VOL. III, NO. 3—APRIL, 1935 . . . \$1.25

Depth Tables	Stanley L. McMichael
Valuation Under Modern Conditions	George Head
The Administrative "Joker" in the Federal Securities Act	K. Lee Hyder
The Relation of Profit to Value	George L. Schmutz, and Loring O. McCormick
Valuation of Land with Underlying Natural Resources	Philip W. Grossman
Percentage Leases	C. J. Pearce
The Place of Buildings in Appraising Illinois Farms	Charles L. Stewart
Appraising Single Family Residences	Wm. E. Mosby
Pitfalls in Residential Appraising	Nathan Libott
Appraising for Long Term Mortgage Loans	Horace Russell
Upset Price Appraisals	Andrew C. Hamilton
Rules of Professional Ethics	

VOL. III, NO. 4—JULY, 1935 . . . \$1.25

Preparing for Court Testimony	Joseph Laronge
Appraising as an Economic Factor	L. H. Olson
Determination of Mortgage Risk	Frederick M. Babcock
Valuation and Risk-Making Systems of FHA	Ayers J. duBois
Influence of Special Assessments on Farm Values	True D. Morse
True Value of Real Estate	Henry E. Reed
Factors that Affect Market Price	George L. Schmutz and Loring O. McCormick
The Ricardian Rent Theory	Ivan A. Thorson
The Appraisal Report	J. Alvin Register

VOL. III, NO. 5—OCTOBER, 1935 . . . \$1.25

Depreciation	J. L. Haynes
The Appraisal in the Registration Statement	K. Lee Hyder
Appraisals for Purposes of Public Financing	S. Edwin Kardin
The Six-Story Elevator Apartment Building	Frank M. Edwards
Landscaping as an Offset to Depreciation	Bertram C. Burchfield
The Appraisal of Warehouses	Stephen Angell
How Should a Municipality Assess Development Property?	Harry Grant Atkinson
Ethics and Professional Conduct	John B. Green
An Appraisal Report	

VOL. IV, NO. 1—JANUARY, 1936 . . . \$1.25

The High Cost of Low Cost Appraising	George H. Coffin, Jr.
The Appraisal Process	K. Lee Hyder
Operating Statements in Valuation—I	
Depreciation—Past and Anticipated	Ayers J. duBois
Some Annuity Concepts	George L. Schmutz
Currency Inflation in Germany	Dr. Alexander Block
Leasehold Securities as an Investment	Frederick W. Woltsman
Real Estate Practice in Japan	Seizo Sugihara
Cooperative Realty Education	W. H. Spencer
International Federation of Surveyors	

VOL. IV, NO. 2—APRIL, 1936 . . . \$1.25

Real Estate in Ancient Times	Maurice F. Reidy
The Appraisal Report	Ayers J. duBois
How Mississippi Is Solving Its Assessment Problem	W. H. Wallace
The Process of Appraising Single-Family Homes	Harry Grant Atkinson
How to Build a Business	J. George Head
Estimating the Value of Farm Lands	True D. Morse
Operating Statements in Valuation—II	
The Appraisal of Easements	Walter W. Cohn
Management as a Factor in Appraisal	Graham Adlis
Depreciation for Insurance Purposes	R. E. Thompson

Address orders and make checks payable to: *The Journal of the American Institute of Real Estate Appraisers*, 22 W. Monroe Street, Chicago, Illinois.





The School of Business of
The University of Chicago

and

**THE AMERICAN INSTITUTE OF
REAL ESTATE APPRAISERS**

of the National Association of Real Estate Boards

ANNOUNCE

**Three Two-Week Case-Study Courses in
Real Estate Appraisal**

THE COURSES

Appraisal I—July 20-August 1

Fundamental concepts; principles of valuation procedure; appraisal of single-family homes and small flat building properties.

Appraisal II—August 3-August 15

Amplification of valuation theory and the appraisal of typical apartment and retail business properties.

Appraisal III—August 17-August 29

Intensive study of advanced procedure and the appraisal of elevator apartment and office building and other types of properties.

INSTRUCTORS

All of the instructors are M. A. I.'s selected from the membership of the Institute on the basis of their record as teachers and their long experience in actual appraisal work. Each instructor has appraised all types of real estate ordinarily found in metropolitan areas and in small urban communities. The faculty includes George L. Schmutz, M. A. I., Los Angeles, Calif.—*Dean of the Summer Courses*; Ayers J. du Bois, M. A. I., Washington, D. C.; Herman O. Walther, M. A. I., and Harry S. Cutmore, M. A. I., Chicago, Illinois; Ralph V. Field, M. A. I., Galesburg, Illinois; Thurston H. Ross, M. A. I., Los Angeles, Calif.; and K. Lee Hyder, M. A. I., Milwaukee, Wis.

METHOD OF INSTRUCTION

These courses will be presented through a combination lecture-case study method including:

1. More than thirty lectures of one hour each in each two week course.
2. Regularly and specially scheduled round-table discussion periods.
3. The actual appraisal of a property by each student, under the personal supervision of a member of the faculty.
4. Assigned readings in the most complete real estate library in the country. These will include references to selected appraisal reports in the Institute's collection of more than 1,000 duplicates of appraisal reports prepared by Members of the Institute for actual clients.
5. Specially prepared text material covering the course in detail.
6. Personal conferences.

Although these courses are intended for experienced real estate men, they are open to any who have an adequate background of education and training. Enrollment is limited to 100 students.

A booklet giving detailed information about the courses may be had by addressing

The American Institute of Real Estate Appraisers

22 West Monroe Street—Chicago, Illinois

Contributors to This Issue

HARRY GRANT ATKINSON, Director of Divisional Activities of the National Association of Real Estate Boards, Chicago, Ill.

AYERS J. DUBOIS, M. A. I., Chief, Valuation and Training Unit, Underwriting Section, Mortgage and Insurance Division of the Federal Housing Administration, Washington, D. C.

WILLIAM E. G. GAILLARD, Chairman of the Industrial Property Division, N. A. R. E. B., and President of Gaillard Realty Company, Inc., of New York City.

J. GEORGE HEAD, J.P., Member of the Auctioneers' and Estate Agents' Institute, London, England.

WALTER W. POLLOCK, President of the Manufacturers' Appraisal Company of Philadelphia, Pa., and President of the Association of Appraisal Executives of America.

CUTHBERT E. REEVES, M. A. I. Appraisal Consultant, Home Owners' Loan Corporation, Washington, D. C.

AUGUST B. SCHULTE, Appraiser and mortgage broker, Philadelphia, Pa.

R. E. THOMPSON, M. A. I., Assistant Tax Agent for the Central Railroad Company of New Jersey, Jersey City, N. J.

IVAN A. THORSON, M. A. I., Appraiser and Tax Consultant, Los Angeles, Calif.

The Latest Thought on Real Estate Management

Is found in THE JOURNAL OF REAL ESTATE MANAGEMENT.
The last two available issues contained the following feature articles:

VOLUME TWO, NUMBER ONE—\$1.25

Office Tenant Selection vs. Price Cutting, by
B. L. Lester

The Conditioning and Maintenance of Floors,
by Everett S. Cason

Testing the Rent Market, by *James C. Downs, Jr.*

Air Conditioning, by *Deane E. Perham*

Advertising an Apartment Hotel, by *Dean U. Bakke*

Specifications and Standard Volume Purchasing,
by Oliver S. Turner

The Apartment Building of the Future, by *Lucus W. Hilton*

Unsecured Apartment Leases, by *Earl B. Teckemeyer*.

Standards of Practice

VOLUME TWO, NUMBER TWO—\$1.25

Building a Management Business Through Advertising, by *Jim Seaton*

Trust Mortgages, by *Samuel Goldenberg*

Managing Homes for Sale, by *H. W. Stemberger*

What Is Depreciation? by *Morton G. Thalheimer*

Percentage Leasing, by *George J. Beggs*

How Many Forms?, by *Thomas J. Fleming*

Financing and Managing Real Estate, by *Robert C. Nordblom*

Paint vs. Paper for Apartment Walls, by *James A. Riner*

Address Orders and Make Checks Payable to
THE JOURNAL OF REAL ESTATE MANAGEMENT
22 W. Monroe Street, Chicago, Illinois

235

The JOURNAL of the
**AMERICAN INSTITUTE OF
REAL ESTATE APPRAISERS**
of the National Association of Real Estate Boards

K. Lee Hyder, *Editor-in-Chief*
Harry Grant Atkinson, *Managing Editor*

Volume IV

July, 1936

Number 3

CONTENTS

Rationalizing Appraisal Practice.....	<i>By Ivan A. Thorson, M. A. I.</i>	237
Bracketing in Appraising.....	<i>By Ayers J. duBois, M. A. I.</i>	254
Appraising as a Profession.....	<i>By Harry Grant Atkinson</i>	271
Advertising by Appraisers—An Open Letter to M A. I.s.....	<i>By J. George Head, J. P.</i>	278
Residential District Permutations.....	<i>By August B. Schulte</i>	283
Preferential Treatment of Industrial Realty.....	<i>By W. E. G. Gaillard</i>	289
Appraisal of Water Front Real Estate.....	<i>By R. E. Thompson, M. A. I.</i>	293
Gross Income as an Index of Value.....	<i>By Cuthbert E. Reeves, M. A. I.</i>	301
Science and Practice of Urban Land Valuation..	<i>By Walter W. Pollock</i>	310
Comment and Discussion:.....		319
<i>Green—On Building a Business</i>		
<i>Thompson—On Values vs. Prices</i>		
<i>Dunn—On the Torrens Law</i>		
<i>England—On Depreciation for Insurance Purposes</i>		
<i>Gaddis—On Horizontal Division of Values</i>		
Inflation and Your Income—a Bibliography.....		330
Current Articles		329
Digest of the Minutes.....		331
New Members		334
Officers and Committees.....		337
Roster of Members.....		340

This publication is provided as a medium for the expression of individual opinion concerning appraisal practice and procedure and topics allied thereto. The articles printed herein do not necessarily represent the endorsement of the Institute nor of the majority of the members excepting as such statements may be designated as approved by the Governing Council. The Editors exercise only a general supervision of the material and assume no responsibility for the opinions expressed by the contributors.

Published quarterly by the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards at 22 West Monroe Street, Chicago, Ill. Contents of this issue are covered by copyright, 1936. All rights reserved.

Entered as second class matter January 17, 1933, at the post office at Chicago, Illinois, under the act of March 3, 1879. Subscription rates: \$5.00 a year; \$1.25 a copy. Remittances may be made by personal checks, drafts, post office or express money orders, payable to the American Institute of Real Estate Appraisers, Chicago, Ill. Printed in the United States of America.

The Value of the "Short-Cut"

THE old brick schoolhouse where we sweated away many of the golden hours of our youth is still standing. We saw it not long ago on a visit to the Old Home Town. And, judging by the outpouring of Young America we witnessed on that glorious mid-forenoon, it is still in every day use. That veritable human cascade issuing from its portals could have meant nothing else than "recess."

But the surroundings have completely changed. For instance, the "short-cut" down the hill, over the creek, and diagonally across the old Marine Place, which was the somewhat informal but "bee-line" route of all the kids living on the "Hill" is no more. It brought us directly to the street which formed the approach to the school grounds in the shortest possible time.

We noted with a measure of sadness the regular checkerboard development that had spread itself over the area—the commercial structures, the well-paved thoroughfares, and even the traffic lights. "How in the world," we thought, "do the boys of today ever get to school before the 'second bell' rings?" That "short-cut" saved many black marks in our day as it provided the few precious seconds that brought us to our seats in time to gasp a breathless "present" at roll-call.

There is merit in the "short-cut." It should be kept open. We are going faster and farther today, but our destination has changed very little. The modern appraiser is tending to follow a longer and more circuitous route to his objective. No doubt it is a safe, sane, and sure way of arriving there, but—on occasion—he may be late.

It is increasingly evident that in undertaking an appraisal engagement the *Preliminary Survey* of the problem is helpful, and may save a great deal of unnecessary effort. The quick assembly and cursory study of the more outstanding facts and influences leads most readily and directly to the proper and logical approach. It may well be applied before the formal investigation and computations are undertaken. We can see better on a straight line than we can around a corner.

So keep the "short-cut" open. The *Preliminary Survey* is a great conserver of energy. And, incidentally, it may help to keep the "tardy" marks at a minimum which, in itself, is a matter of no small moment in these days of business frailty and necessity.

The JOURNAL of the

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

Volume IV

JULY, 1936

Number 3

Rationalizing Appraisal Practice

By IVAN A. THORSON, M. A. I.

To plan and to engineer a building, a machine, a dam, or a bridge is the proper function of the skilled architect and engineer who work with known quantities and forces subject to more or less definite mathematical and physical laws. The engineer deals with inorganic (inanimate) materials over which he may be said to have full control. The evaluator, on the other hand, has to do with the effect of the behavior and choices of people, that is, with the manifestations of living organisms.

Control over inanimate things lies largely in our own hands. The behavior of animate organisms, of living men in a living society, is quite something else. Here we have a problem that cannot be solved with the transit, the yardstick, or the slide-rule. We cannot through any set of rules (established more or less *a priori*) find the solution of our valuation problems any more than we could write into some five hundred codes the solution of our business troubles, because here, as in appraising, we have to do with the shifting human element, which refuses to be reduced to mathematical formulas.

When concerned with living organisms, we can only assist and to some degree direct, but we can otherwise do little more than record, through research and fact-

finding, our estimate of the effects of their numerous and complex manifestations.

A well-built structure may withstand the elements of time for centuries, but its economic utility may be of comparatively short duration. It is the latter which compels the attention of the evaluator. The appraiser's function includes expressing a judgment as to whether or not the property is utilized to the best advantage, as well as to make at least a rough estimate as to how far into the future this utility will extend.

Of course, replacement cost estimates play an important part in appraising, particularly in the case of properties which yield their utility directly to the owner, such as homes occupied by the owner. It is important for the purpose of insurance, for gauging competition, etc. However, if costs were the sole criterion of value, or even the most important item, our appraising should be relegated to contractors and accountants. *Cost* finding in any event should not be confused with *value* finding, which is the function of the appraiser—but more about this further on.

THE FUNCTION OF THE APPRAISER

Our function as appraisers would seem to be limited to estimating, as of today, the discounted value of future happenings

as they apply to real estate—that is, insofar as we can foresee them,—and that, I fear, is not very far. In other words, appraising is an attempt to translate into monetary terms the result of human choices and movements as they affect the particular real property under consideration.

Knowledge of academic subjects which deal merely with ideas is derived mainly from books and requires chiefly scholastic aptitude. Valuation of real estate, or of any other material good, involves an understanding of human nature—an illusive and variable theme.

The so-called cultural subjects deal with the past or what is already in existence; the success of a business venture or of a real estate investment depends chiefly on future happenings—of which we can know but little.

WHAT DO WE KNOW ABOUT THE FUTURE?

While it is academically true that all benefits accruing from real estate (or from anything else) lie in the future, it does not therefore follow that we are actually able to calculate such benefits with any degree of accuracy, nor is it expected that we will be able to do so. No one has ever succeeded in doing this so far.

From one of Brisbane's recent syndicated articles (May 24, 1936) captioned "THE PAST WE *know*; THE PRESENT WE *see*; THE FUTURE, ALL *mystery*," we quote the following:

"From the past we *learn*—sometimes; in the present we *experiment*; about the future we *wonder*. There are no modern prophets to read that future."

Roy Helton, in *Sold Out to the Future* states, "Vanity has prompted us to build for the centuries, although common sense should warn us that we have no foreknowledge of tomorrow." He furthermore contends, "We have concerned ourselves too much with the future which we

can neither forecast nor control." Patterson and Scholz (University of Pennsylvania) in *Economic Problems of Modern Life* say, ". . . Predictability is present in the physical sciences, such as physics and chemistry, but not in the social sciences such as economics and sociology." The exact sciences have little to do with the shiftiness of the human equation.

WILL WE EVER LEARN?

It is really remarkable how fascinating to philosophers throughout the ages has been this quest for mathematical certainty in human relationships.

All through early history and extending to the present time we find the futile groping for certainty where certainty cannot be attained; attempts to reduce to indisputable and accepted universals things which cannot be so reduced. Descartes three hundred years ago expressed a determination to put all knowledge on a demonstrative basis by paralleling it with the axioms of mathematics. Throughout his life he tried to prove that everything takes place mathematically. Spinoza, who followed him, went so far as to adopt the exact form of the Euclidean geometry, employing definitions, axioms, postulates, and then advancing by demonstration precisely as in geometry. He believed, as did Descartes, that mathematics furnished the only true pattern for any form of knowledge. He said, "I shall consider human actions and desires in exactly the same manner as though I were concerned with lines, planes, and solids." We find Adam Smith discoursing on the "immutable and unchangeable laws of economics." Malthus in his population theory attempted to establish a definite mathematical ratio between population increase and food production, and Ricardo maintained that there was a more or less exact relation be-

tween physical labor and wealth production,—a delusion under which many of our assessors are still laboring. So we see that there is an abundance of historical background for those who are still attempting to reduce appraisal practice to a more or less mathematical certainty.

EXTENSION INTO OTHER FIELDS

This quest for certainty in future human relationships has extended into many fields. Lawyers and courts have increasingly invoked precedent to settle the matter of right and wrong between parties, assuming thereby that the "cases" cited necessarily parallel the case in hand—a tendency deplored by eminent students of jurisprudence. One outstanding jurist recently said that if this practice continued to increase, all necessity for independent thinking on the part of lawyers and courts would soon cease. The Supreme Court of the United States and the Small Claims and Police Courts alone make decisions solely on the merits of the case as revealed by the actual evidence presented. They are not bound by the usual "rules of evidence."

DEALING WITH ABSTRACTIONS OR WITH INORGANIC THINGS COMPARATIVELY SIMPLE

Pure, abstract mathematical calculations alone need no qualifications. Two plus two are four, no matter when, where, or by whom they are added up—we need not say "other things being equal." Throughout the ages it has always been so. On the basis of this truth we have successfully predicted far into the future the action of heavenly bodies millions of miles away.

It is so easy to forget that mathematics, our only really exact science, alone permits of purely deductive reasoning; that mathematics has *implications* only. The

minute we begin to *apply* it to something, we mix it with the fallible human element and the process ceases to be a *science* and becomes an *art*, subject to all the vagaries of human frailty.

But outside of "implied" mathematical truths there is nothing in human experience which may be accepted as indisputably true *without qualifications*. Chemical reactions will be modified by the purity of the chemicals, by temperature, by atmospheric pressure, by the skill of the experimenter, etc. The laws of physics will operate with consistency only when conditions are the same. A bullet and a feather will drop to earth with equal speed only in a vacuum. However, the action of the laws of chemistry and physics, dealing as they do with inorganic matter only, may be quite definitely predicted, because, generally speaking, we have control over the conditions affecting the operation of the laws governing inanimate things. It is therefore a comparatively simple thing to calculate the *cost* of the building or other improvements on land. In other words, *cost-finding* is a comparatively simple process.

LIVING ORGANISMS VERY DIFFERENT

When on the other hand we have to do with living organisms, we are confronted with a very different situation. Even the lowest forms of plant or animal life are affected by changing conditions which make difficult any definite predictions as to their future actions and reactions. Weeds and vermin persist; they need little encouragement; while the successful raising of orchids and race horses requires thorough understanding, extensive experience, and great skill.

When human beings are brought into the picture we meet with an infinite variety of qualifying conditions and cir-

cumstances which must be taken into consideration if we shall hope to arrive at even a semblance of proper judgment as to their future actions and behavior. Therefore, definite prognostications and forecasting in regard to things which are dependent on the human element become impossible. *Value* finding is a much more difficult performance than *cost* finding.

If we, therefore, believe,—and I cannot see how we can escape the conclusion,—that real estate values depend on the movement and choices of people, we must come to a realization that any attempt to reduce future human desires and activity to any degree of mathematical certainty will meet with the same fate as the earnest, though futile, attempts of Descartes, Spinoza, and others.

DO WE REALLY KNOW MUCH ABOUT REAL ESTATE?

Apparently lenders on, and buyers of, real estate, as well as others who have been in the business of negotiating real estate sales, leases, loans, and other interests in real property, have assumed that expertness in real estate valuation was easily acquired and that real property values were more or less a matter of common knowledge. Nothing could be farther from the truth.

The very drastic change in real estate activity which began to make itself felt about 1926 was interpreted merely as one of the inevitable cycles, something which like mumps or yellow fever could not be escaped; slumps in real estate simply had to be endured every so often, but, like the Phoenix, real estate would rise in ever-increasing splendor after each dormant stage. Just *why* it would slump and *why* it would "come back" have been regarded as phenomena beyond our ken.

PROBABLE REASONS FOR CONFUSED THOUGHT REGARDING REAL ESTATE VALUES

There is perhaps nothing which affects our material welfare to so large an extent as does real estate, about which there is so much confused thought and about which we know so little.

Much of the mental fog surrounding real estate may be traced to the blind following of outmoded classical traditions, and to the servile following of writers whom we look up to as "authorities." We embalm as irrevocable and everlasting truths, "doctrines," and definitions which, so far as applicability to present-day conditions are concerned, have proved themselves impractical absurdities. Some of us have clung to philosophies which had their inception when farm land was practically the only type of land under consideration, and when life was comparatively simple. Urban life has brought new problems unknown to Malthus, Adam Smith, Ricardo, Mill, and others, of whose philosophic and economic theories many of us have been unthinking and worshipful followers. I believe we will agree that our texts on economics have been to date largely historical recitations of the teachings and writings of economic "authorities" who taught and wrote years ago. As the writer views it, economics is a *living* thing, a contemplation of the best way of conducting our business in our *present* struggle for existence, comforts, and happiness.

Heretofore, economic principles and what is termed "practical" ways of doing things have run largely in separate channels. Is it not time that we combine theory and practice in the interest of economically sound practice?

What does it profit us to drag in by the ears ancient economic theories or "Schools

of Thought" unless they find application in sound practice? By the same token should we persist in methods and practices which history and our experience have proven unworkable? (See the writer's "The Inapplicability of the Ricardian Rent Theory to Present-day Conditions"—*Journal of the American Institute of Real Estate Appraisers*, July, 1935.)

Another difficulty which has resulted in confusion of thought and in unduly narrowing the concept included under the term appraising is that land valuation (appraising) has been considered as merely one of several divisions of the subject of land economics, which in turn is a phase of general economics. In other words, appraising has been regarded as a comparatively small part of the larger general subject of land economics, when in fact proper appraising is impossible without taking cognizance of all factors which influence land values.

CONFUSING GEOGRAPHIC SUPPLY OF LAND WITH ECONOMIC UTILITY

While land as geographic area (the earth's surface) has no production cost, may not be moved, stretched, or destroyed, do we not multiply the effective urban land areas when we erect multi-story buildings, or may not the utility of land be destroyed by improper use, or because of the city's changing its center of population, or through a number of other causes? While no two geographic areas are identical, is not the use value of a number of locations in a city practically identical? Furthermore, we know that labor and capital are in a large measure expended on urban land to make it fit for occupancy. May we not then say that urban land is to a large extent man-made?

We have constantly confused mere geographic area and physical bulk with

economic utility, and have assigned to real estate characteristics and qualities possessed only by personal property. The result has been an almost hopeless confusion as to just what constitutes real estate values.

THE EVOLUTION OF REAL ESTATE APPRASING

We have made rapid strides in the art of real estate appraising during the last few years. Previous to about 1925 the value (?) of real estate was "calculated" almost entirely on the cost of the improvement and on the selling price of the land. During the fifty years preceding 1925, because of the great influx of new people from other countries as well as on account of the high birth rate, our population increased tremendously and with it real estate *prices*, if not always *values*. In such a situation, there is almost always a housing shortage which meant that the production cost and the actual value footed up to about the same figures. At that time (and still going strong), employing the income method meant to capitalize in perpetuity the building at 8% and the land at 6%. Otherwise real estate appraising consisted of finding the reproduction cost of the building and adding thereto what the appraiser considered to be the fair selling price of the land.

THE "ANNUITISTS" MAKE THEIR APPEARANCE

When fading districts appeared, and fertility and natural resources of farm land were diminishing, we began to take into account the declining utility of certain areas and locations. After all, real estate did not "always go up." The probable future utility therefore began to receive more attention.

However, true to our tradition when

necessity forces us to remedy an unsound economic or social condition, we went to the other extreme; and we found some of our able appraisers embarking on the age-old futility of attempting to predicate values *altogether* on definitely predicted future earnings, going so far as to set out in their appraisals definite future monthly or yearly incomes for periods ranging from ten to fifty years. These appraisers who referred to themselves as "Annuitists" would project certain definite amounts which they employed annually to scale down the amount of investment in improvements as well as give the owner what they deemed to be a reasonable return on his investment.

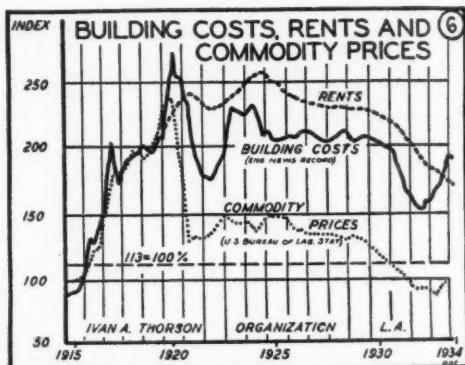
This "annuity" system, of which Frederick M. Babcock, M. A. I., was one of the chief sponsors, is untenable in that:

1. It assumes real estate to be of more or less homogeneous character, and on that assumption premises are established dogmatically, from which it is purported that conclusions in regard to value may be *deductively* arrived at. That is, all income properties of whatever nature, according to this method, may be fed into a four or a five premise hopper and the answer will be forthcoming. Those premises to begin with were predicated on the false assumption that "the improvements on real estate always decline in value."

2. It assumes further that land, because of its physical indestructibility also has a constant earning value and may therefore be capitalized in perpetuity at a low interest rate; thus confusing physical area or bulk (a constant entity) with economic utility (a highly variable phenomenon).

How often, if ever, do we find in our estimations of real estate values *any* premise of general application? Our research and experimentation, however extensive, have never established as incontestably true that for example, "the physical value of an improvement will always decline with the years." In fact, we know this is not true in many cases. One needs only to look at the Graph in this article to

be convinced that, *other things being equal*, a building erected in 1915 was more valuable from a replacement standpoint in 1920 than it was in 1915, because the price of building materials during that time increased more than two and a half times. Likewise, between 1932 and the end of 1933, building costs advanced more than 40 points (Engineering News Record).



CUT 6. Note the paralleling of rents and building costs up to about 1932. Since then we have had the paradoxical situation of rents going down while building costs have gone sharply up. This has materially hindered new construction. It will be noted that building costs are far out of line with commodity prices.

Who can say that the rents from any property will remain fairly constant over a long period of time? Reference to the graph made by Mr. Hooker, on Page 243 will promptly dispel any such idea. This graph shows that the net income from what we ordinarily would consider a very stable property, fluctuated several hundred per cent over a span of only five years.

It is obviously impossible to prognosticate with any degree of exactness the income accruing to a fee owner, or to a lessee from real property for any considerable length of time. For this reason it is highly misleading to pretend that we can for any appreciable length of time fix the amount

of rentals from any property, even though such property may be located in what is regarded as a highly stabilized district. This was forcibly brought to our attention in an address delivered by Mr. John P. Hooker before the annual meeting of the American Institute of Real Estate Appraisers which met in Chicago in June, 1933. In this address Mr. Hooker gave in detail the net income, for a period of twenty-five years, from a property located in the heart of Chicago and in what was considered a very stable location. The variations in the net income from this property over the twenty-five-year period fluctuated from about 1.5% to 12.00%. The varia-

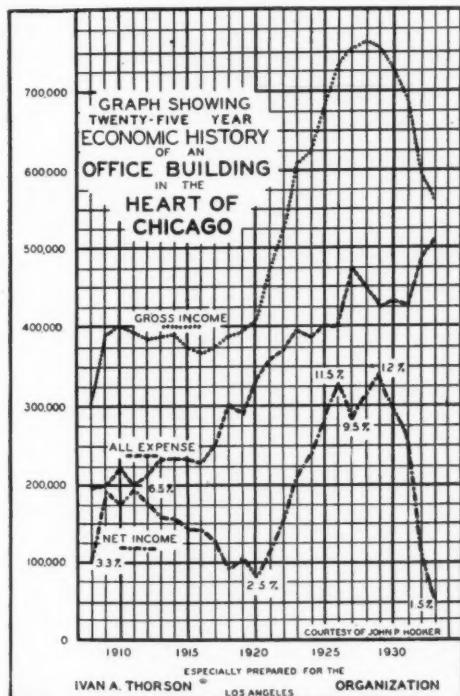
decline in net earnings which reached 2.5% in 1920, after which it bobbed up and down for two years and then started a steady climb over the next seven years, reaching 11 3/4% in 1926, dropping to 10% in 1927, then rose again and reached 12% in 1929, only to fall back to 1.5% in 1931.

We do not believe it possible to concoct rules or tables which would, even remotely, predetermine the net returns from the above property. Our attempts in the past to do the impossible in this respect have resulted in many ridiculous situations, and have caused great embarrassment to many good appraisers who later on have had to face their own appraisals made some years previously. They had apparently been carried away by systems and methods which seemed plausible, but which were in reality impossible of practical application.

CHANGES IN THE BUYING POWER OF MONEY ENTIRELY OVERLOOKED BY THIS METHOD

Furthermore to complicate matters, money, the commodity or medium which we use as a yardstick to measure cost, income, and value, has fluctuated greatly, not only in terms of *building costs*, but has varied tremendously in terms of purchasing power of *all commodities*—the latter from approximately 55c in 1920 to \$1.80 in early March, 1933 (Irving Fisher Index).

The annuitist asks us to accept, *a priori*, three or four "premises" as proper universals from which, deductively, to arrive at sound conclusions. It is true that *some* assumptions must be made. We are of course permitted to draw inferences from accepted knowledge and proven truths, and it is perfectly proper to draw conclusions from premises which have registered in every special case under observation. *Where such premises are not at hand we*



tions, moreover, took place at very irregular intervals. There was a rise of from 4% to almost 7% during the first four years; the next eight years showed a rapid

are confronted with the task of establishing proper universals or premises, "inductively," that is through research and fact-finding.

It is a well-established fact that the syllogistic form of deductive reasoning admits of abuse by connecting, in a merely formal manner, premises which have no real connection. "Such an artificial and mechanical treatment of the syllogism leads naturally to empty subtleties and weak sophistries." (From Dr. Hibben's *Inductive and Deductive Logic*).

THE SOPHISTIC REASONING OF THE ANNUITIST

Put in syllogistic form the reasoning of the annuitist runs somewhat as follows:

Major Premise.

"All animals have four legs"—(All improvements decline in value).

An obviously false premise.

Minor Premise.

"This is an animal"—(This is an improvement).

Conclusion.

"Therefore this animal has four legs"—(Therefore this improvement declines in value).

As the premise is false, the conclusion will be false as a matter of course.

The "Annuitists" do not stop at this sort of specious reasoning, but they go on to state in effect that *every* animal not only has four legs, but that their legs are either four, six, or eight inches long and of a certain prescribed thickness. They assert that the changes in the value of the improvements on land may be made to fit into four or five definite, prescribed categories, called "Premises," established largely *a priori*. Some of these premises show sustained values during the first few years; others project receding values, and others proceed in a straight line; while the land goes on forever with "undiminished

earning power and value" (A la Ricardo and the Single Taxer).

DOGMATISM GIVES WAY TO RESEARCH AND FACT-FINDING

It was not surprising that a man of Babcock's outstanding ability should eventually abandon a method so unscientific and so impossible in its practical application. The opportunity to correct his early teachings came when he was entrusted with the working out of a valuation program for the F. H. A. Here he has done an excellent job.

The F. H. A. appraisal procedure is both logical and workable in that

1. It recognizes the heterogeneous character of real estate, and that therefore no general premises may be established from which we may reason *deductively* to a conclusion, but that a premise must be established *inductively* by research and fact-finding for each individual property before a judgment as to value may be arrived at.
2. It also recognizes that the land will vary in value from time to time and will present in many cases a greater investment risk than the improvement. Such is the case, for example, in a fading, close-in, district.

Instead of attempting to fit every building into a few prescribed categories, every property is conceded to be a separate problem, involving different investment risks, and the appraiser is required to analyze in great detail every individual house and lot. *That is, under the F. H. A. system a separate "premise" is established for each property*, and only after the final arbiters have received from the appraisers a vast amount of detailed information in regard to each property, gathered through much research and fact-finding, do they proceed to form their judgment as to the eligibility of the property for mortgage insurance.

Under the F. H. A. valuation system, recognition is given to the fact that a

proper judgment takes place only when it is brought into relation with some other judgment which has already been tested, and which has found a place in our body of general knowledge. That is, every property is in effect checked against a hypothetically perfect property—an engineer would call it a "bench mark."

OTHER TABLES (PREMISES) TABOO

Paradoxically, most annuitists have meticulously (and properly) warned against a too serious acceptance of depth tables, corner influence tables, and other mechanical devices designed to take the place of research and fact-finding. In this I have heartily joined them on the grounds that such devices at best reflect merely the empirical findings in relatively few cases. However, the "premises" set forth in Babcock's early teachings have far less claim to accuracy than have, for example, depth tables; particularly where the latter are constructed to apply to a single block or to a short stretch of street more or less homogeneously developed. Such depth tables at least represent to some degree the actual conditions as found.

WHAT ABOUT THE AUTHOR'S FORMULA:

$$V = \frac{I}{R + SF} ?$$

But the reader will say, what about Thorson's formula referred to above, isn't that an arbitrary rule or formula—the very thing he is preaching against? Quite the contrary; it is a "premise" which will vary with every appraisal. It is perhaps unfortunate that this algebraic expression ever was termed a "formula." Let me explain.

The above question is derived from a statement which we believe all appraisers agree is axiomatic; that is:

$$V = \frac{I - AM}{R}, \text{ where}$$

V is the value sought.

I (or 1 if it is desired to make it general) stands for what the appraiser concludes is the warranted or justified net income.

AM represents the amount of the amortization arrived at by whatever method the appraiser may choose.

R is the capitalization rate selected by the appraiser to reflect the risk involved.

In other words, this so-called "formula" merely asserts that the capital value sought is found by dividing the warranted or justified net income, less an amortization amount, by a rate per cent reflecting the risk involved, all factors being arrived at inductively by the appraiser.

If we use the term *income* in its large economic sense as meaning any benefit or satisfaction derived from real property, including the so-called amenities, our statement will apply to any type of property. However, in order to avoid argument, we shall let it apply here to income or rental property only. But you will say, "We are not going to agree so readily on any particular type or method of amortization, nor may we agree on the capitalization rate."

Precisely, and I do not ask, do not expect, nor do I believe it to be reasonable or necessary, that we agree on any pre-designated amount of amortization or rate of capitalization, nor on the method of applying the amortization.

WHAT ABOUT THE AMORTIZATION CHARGE (AM)?

The amortization or charge-off may be either: (1) a lump sum, (2) a certain percentage of the value of the items amortized, or (3) a sinking fund or other an-

nuity factor. (1) and (2) are usually referred to as straight line amortization.

In the example (including the appraisal of an apartment) shown on Page 248, a sinking fund amortization is employed. *This is by no means to be construed as being necessarily a preferred type of amortization.* At best, the proper amount of the charge-off or amortization can only be an intelligent estimate. While we may calculate with fair exactness what the remaining life of the equipment is likely to be and therefore estimate with reasonable accuracy its annual charge-off, there is no one who knows with any degree of certainty what the remaining economic life of the structure will be, especially that of an apartment building. The physical depreciation may be calculated with some degree of accuracy, but the economic depreciation (obsolescence) is entirely beyond our human capacity to estimate with even a semblance of exactness, and this form of depreciation is by far the greater.

There are many able appraisers who prefer the straight line method of amortization. On a point which is legitimately so nebulous as the amount or kind of amortization to be applied to a building, any dogmatism would be untenable. It should be noted that the system here advocated is so flexible as to permit the use of any recognized method of amortization.

HOW THIS ALGEBRAIC FORM MAY ASSIST THE APPRAISER IN HIS CALCULATIONS

Let me repeat that the above equation is merely a convenient *form* for the more expeditious translation of our data into monetary amounts. It is used as we use a meat grinder from which we get out only what we put into it. It is not used, as are many formulas and tables, to "manufacture" values. As suggested, the elements in this equation represent

amounts and percentages which the appraiser has inductively arrived at through his research and fact-finding. So that this so-called "formula" represents merely his "premise" for the particular property under appraisement. It is put squarely up to the appraiser to suggest the proper amortization amount (AM) as well as what the capitalization rate (R) shall be.

He is furthermore called upon to decide whether or not the net income (I) as reflected by the records is warranted or justified. Obviously only the appraiser on the job can do this.

CHOOSING THE METHOD AND AMOUNT OF AMORTIZATION

If an arbitrary lump sum be chosen as the proper amortization, this sum is simply subtracted from the net income (I), and the remainder is divided by the capitalization rate (R).

Where a sinking fund factor, (SF), is used, the amortization amount (AM) will be represented by (SFxV) in which case the equation will read:

$$V = \frac{I - (SF \times V)}{R}$$

Where the amortization is a straight line "percentage," (P), of the Value sought, (V), it will appear as (P% × V), and the equation will read:

$$V = \frac{I - (P\% \times V)}{R}$$

By ordinary algebraic computation the equation

$$V = \frac{I - (SF \times V)}{R}$$

will reduce to

$$V = \frac{I}{R + SF}$$

In this equation, V is the only unknown

quantity and appears in two places. To segregate it we multiply both sides by R which gives us $VR = I - (SF \times V)$. Move the expression $(SF \times V)$ to the left side of the equation by changing signs, and we have $VR + (SF \times V) = I$. We note that V is a common factor of R and of SF, so we change $VR + (SF \times V)$ into $V(R + SF)$. Now we have $V(R + SF) = I$. Divide through by $(R + SF)$ and we

$$\text{get } V = \frac{I}{R + SF}$$

$$V = \frac{I - (P\% \times V)}{R} \text{ reduces to } V = \frac{I}{R + P\%}$$

I, the income, is computed from the records and justified by the appraiser. R, the capitalization rate, is selected by the appraiser, as is the amortization factor. It then merely remains to solve for V, which is the Value sought.

The above is the Hoskold principle broken down and also that of Inwood.¹ As stated, this enable us to establish a premise for every property instead of deductively trying to fit the property to a ready-made premise or table.

Now review K. Lee Hyder's article in the January issue of the *Journal*, captioned "The Appraisal Process." This article will give the reader a thorough understanding of the procedure employed

1. The only difference between the Hoskold and Inwood "Present Worth" formulas is that the former is elastic in that it provides for a varying compound interest rate to be used with the selected investment or risk rate. The Inwood formula makes these two rates the same in all cases. The similarity in principle may be shown as follows:

By substituting R, for r, in the Hoskold formula,

$$(1 + r)^n - 1$$

R $(1 + r)^n - (R - r)$
(making the investment [risk] rate and the compound interest
 $(1 + R)^n - 1$
[safe] rate the same), we get $\frac{R}{(1 + R)^n - 1}$ which is the

Inwood "Present Worth" formula.

Insurance companies assertedly make safe investments only in bonds, etc., and the income from these safe investments they immediately re-invest in other equally safe securities, presumably at the same interest rate. The effect is as if they had left the original amount drawing compound interest at the same rate as that received from the original investments. Hence the use of the Inwood Tables by the insurance companies in calculating their annuities. No doubt the annuitant has mistakenly assumed that the insurance methods could be applied to real estate appraising.

by one of our ablest appraisers. Note he suggests three approaches²:

1. Comparative approach
2. Reproduction cost approach, and
3. The Income Capitalization approach

Making note of the fact that while the Reproduction Cost approach is an important one, it is not strictly speaking in itself a valuation process:

"In case the property is improved in such manner as to make it suitable for special purposes only and where therefore no comparable properties are available for income comparison, and provided that such property is occupied by the owners, then the replacement cost may be taken into consideration in determining the warranted earning power of the property, consideration being given to both the physical and economic depreciation (obsolescence) of such property. Items which do not add to the property's usefulness or earning power shall not be included in the appraisal"³

It is not necessary here to recount in detail the various steps in the appraisal process which Mr. Hyder so clearly and ably points out. I would suggest that the reader check the contents of Mr. Hyder's article with his own experience and methods. What I add in what follows is merely some amplification, or in some cases a slight modification of the processes and methods suggested by Mr. Hyder, as well as supplying some detail which he no doubt felt could be left for later study.

AN EXAMPLE

I also venture to suggest a tabulation or set-up which I have found to be very helpful. It has proven particularly useful when a considerable number of properties are involved, as when presenting properties before Boards of Equalization for tax reduction purposes.

Note that the figures referring to building in Columns D, G, K, and L are left

2. The reader should also review the "Process of Appraising Single Family Homes" by Harry Grant Atkinson in the April number of this *Journal*. His analysis of the three approaches mentioned here is very illuminating.

3. From the author's Legislative Bill 1527, providing for a more rational method of assessing real estate for taxation purposes (N. A. R. E. B. Tax Plank No. 6).

out to begin with. As the shell of the building is in this case made residual, we of course do not know what those figures are until our computations are complete.

This amount is now entered in Col. D, Line 1, and the other blank spaces are computed and added up, as shown in bold face figures in the example.

THE KING APARTMENTS

A	B	C	D	E	F	G	H	K	L
Improvements	Replacmnt Cost— New	Age	Est. Re- maining Use Value	Remain. Life	Amortization		Interest		G + K
					Factor	F x D	Rate	H x D	
1. Structure only.....	\$354,916	5	\$312,576	25	.02743	\$8,573.96	8%	\$25,006	\$33,579.96
2. Furniture & Furn....	42,000	5	21,000	5	.18835	3,955.35	12%	2,520	6,475.35
3. Refrig. Equip.....	3,111	5	2,000	9	.09843	196.86	12%	240	436.86
4. Heating Equip.....	4,800	5	3,600	15	.05377	193.57	10%	360	553.57
5. Elevators (2).....	12,000	5	9,000	15	.05377	483.93	9%	810	1,293.93
6. Hot Water System....	900	5	600	10	.08723	52.34	11%	66	118.34
7. Misc. Equip.....	1,840	5	1,300	12	.07046	91.60	10%	130	221.60
8. Land.....	36,000	...	36,000	...	...	...	8%	2,880	2,880.00
9. Total.....	\$455,567		\$386,076			\$13,547.61		\$32,012	\$45,559.61

To determine what these figures will be, we proceed as follows:

It is assumed that the appraiser has prepared a complete field report as suggested above, and that he has made a tabulation of gross income with deductions from such income, and has arrived at what in his judgment is a warranted net, annual income from this property (In this case, \$45,560).

The warranted net return, arrived at as indicated \$45,560.00
Deduct the warranted net returns from Land, F.F. and Equip., that is the total of lines 2, 3, 4, 5, 6, 7, 8, in Col. L 11,980.00

This leaves a residual net income imputable to the structure of \$33,580.00

Capitalizing the residual earnings, using premise as explained above and discussed further on, we substitute in the equation

$$I = \frac{V}{R + SF}$$

V = _____ as follows:

$$\frac{R + SF}{($33,580.)} = \frac{I}{\$33,580.}$$

$$V = \frac{I}{R + SF} = \frac{\$33,580.}{.10743} = \frac{\$33,580.}{(.08 + .02743)}$$

The amount representing the residual value of the structure.

Note that in Column F a sinking fund factor has been employed to obtain the amortization or charge-off amounts in Column G. Many appraisers prefer a straight line or other amortization factor. With them I have no quarrel. They may even determine on a lump sum as the annual charge-off, in which case they will enter the amounts determined upon in Column G, and leave Column F blank.

In this set-up we have assumed that through the methods suggested here and by Mr. Hyder, the warranted net annual income before amortization and interest charges is \$45,560. The property appraised is the King Apartments, a large modern apartment, located on high ground overlooking the City of Los Angeles from the Hollywood Hills. It may be asked why we do not start with a much smaller property. Our answer is that a larger property gives us a better opportunity to illustrate the detail or technique of the set-up suggested here. Note that in this set-up we have segregated the various items which come under the heading of "equip-

ment," separating them on the bases of length of remaining life and the investment risk involved.

THE EQUIPMENT

The items included in the equipment, such as the furniture, furnishings, refrigeration, heating, hot-water system, electrical installation, elevators, etc. (referred to hereafter as "equipment"), are practically all of a movable or removable type. In this classification we should not include such parts of the heating equipment, etc., as are built into the structure itself. These usually are of a kind that will last as long as the building; at least their use life is as a rule considerably longer than the movable equipment. Such items are part and parcel of the building itself and should be so regarded. The heating equipment, refrigerators, etc., may require replacement one or more times during the economic life of the building. Furthermore, the risk element in such items as refrigeration, for instance, is considerable, inasmuch as more efficient machinery is constantly coming on the market which has the tendency to make obsolescent the present installation. This applies also to other equipment items to a greater or lesser extent.

What we have reference to, under the caption "equipment" are, as stated, the movable or removable items. Their economic life and remaining usefulness may be calculated with a fair degree of exactness by specialists in each line. It is suggested that in the more important appraisals a heating specialist be called in to place a value on the heating equipment; a skilled elevator engineer should determine the status of the elevators, and so on. The larger appraisal firms who operate what may be called an "appraisal

clinic," either have in their own organization such specialists, or have definite arrangements with equipment specialists in all lines who do this work for them. The equipment items in Column A in the foregoing example may therefore be given a fairly definite remaining use value as of today (See Column D, "Estimated Remaining Use Value"). There are of course instances where the equipment is entirely out of line, that is, it may be either improper, inadequate, or both, in which case, it should be given a value equivalent to that of merely adequate equipment, in place.

DETERMINING THE RESIDUARY, IF ANY

Having determined upon the present value of the equipment (the movable or removable parts—the chattels) through the assistance of specialists in the larger and more important assignments, there remains to place a value on the land and on the building. It would appear that the fairest and most reasonable method of placing a value on the land is to assign to it a value possessed by other similar land, similarly located. That is, if comparable land is found to have a warranted income which would justify a value of \$36,000, it appears reasonable to assign this value to the land under appraisal, particularly if comparable land in the neighborhood will command such a price.

If we pursue the method suggested above, it is evident that the building will have a value obtained by capitalizing what is left of the net income, after a warranted return assigned to the equipment and to the land has been deducted from the total net income. *This means making the building residual, and this is what we have done in the case of the King Apartments.* Where there are no stabilized land

values and where the building is obviously a proper improvement, the correct procedure would seem to be to make the land residual.

THE RICARDIAN RENT THEORY OF DOUBTFUL APPLICATION

According to the doctrine of Ricardo and other economists of the old school, any product of labor should be given first call on the income from the property. We have not space here to go into a discussion of this ancient theory which has proven entirely inapplicable to our present-day conditions. If every improvement were adequate and proper, well and good; the theory would apply, and the land would invariably be made the recipient of the residual income, after the improvements (products of labor) had received what would be considered an adequate return on the investment in such improvements, although in California we have land carved out of the hillside, as much a man-made product as the building itself.

It is exceedingly difficult to determine with exactness what will be just the right size and type of building which should be erected on a particular parcel of land, even in the most stabilized part of a large city. Business and business methods are constantly changing. The "hot spot" of the downtown of practically every American city has moved, sometimes many blocks, during a comparatively short span of years.

It will be found that where stabilized land is properly improved, the warranted net income will closely conform to the actual net income when the property is devoted to its best use and is well-managed. Where such a situation obtains the appraiser is confronted with no appreciable problem, and no purpose is served by

distributing the income to the land and building respectively.

To operate a building at its highest efficiency, complete equipment is necessary. At the time of the installation of the equipment, it is unlikely that we know whether the building is an over-, an under-, or a proper-improvement. No test of this fact can be made unless the building is adequately equipped. If we buy an elephant to do the work of a small horse, we must buy a harness for the elephant if it is going to do any work at all, though the elephant's harness may cost several times as much as the harness for the horse.

ESTIMATING THE AMORTIZATION AND ALLOCATING THE INCOME TO THE COMPONENT PARTS

It is evident from the foregoing that we should, in the case of the King Apartments, first allocate a warranted income to the equipment and to the land, inasmuch as the land value is fairly stabilized and the equipment is proper.

In our example above, we assume that the equipment items are proper for the building. The land by comparison with similar properties, and by checking selling prices in the district, has been found to have a warranted value of about \$36,000. Persons skilled in estimating the remaining life of the equipment and who know the present value of such equipment have designated the remaining life as well as the remaining use value of the different equipment items (See Cols. D-E). In the foregoing we have noted that the risks involved, insofar as the equipment is concerned, are considerable and therefore warrant high capitalization rates. The rates assigned to the various types of equipment will be found in Column H.

The structure itself, we decided, should

be made residual, and a capitalization of 8% was agreed on—possibly too low. Now comes the task of assigning the proper amortization and the warranted income return to the building, to the equipment, and to the land. The land has been disposed of by assigning to it a value of \$36,000. So as not to raise an argument on this point, we have capitalized the land, more or less under protest, in perpetuity at 8 per cent. The 8 per cent may be regarded by some appraisers as being excessive. We believe that it is, if anything, too conservative. Land seldom if ever remains the same in its ability to yield income. Almost as a rule, land devoted to residential use, whether single or multiple, declines in earning capacity, sometimes even more than do the improvements, unless a higher use is later developed for the land. Such higher use will develop in a relatively small number of instances from now on, as there is already a great over-supply of land zoned for commercial, industrial, and residential-income purposes. The disposition in this case, therefore, would be to capitalize the land at an even higher rate, say 10 per cent.

There is no reason why the land should not also be amortized to a greater or lesser extent in districts which are unmistakably on the decline. However, instead of taking care of the decrease in the value of the land through an annual charge-off, as in the case of the buildings and the equipment, approximately the same result may be obtained by capitalizing the net income imputable to the land at a liberal rate, especially as the land supposedly will have some value after the equipment and the building have ceased to produce net income. Land is indestructible *physically* (that is as geographic area or bulk), however vulnerable it may be from a *utility* (economic) standpoint.

The main reason for assigning a warranted interest rate of only 8 per cent to the building at this time is on account of the evident continuing decline in the dollar value. This reduces the risk. A falling dollar market means a rising commodity price market and usually brings with it higher rents. While we have no absolute assurance that the rents will continue to move up, every indication pointed that way at the time this appraisal was made.

The rate of net income which should be demanded from the various equipment items shown in Column H may at first glance seem high. We would suggest to anyone who considers these rates high that he try to secure a 100 per cent loan on any of the equipment items. He will be fortunate indeed to obtain such a loan at the rates shown in Column H. The risk element inherent in the equipment items is always considerable.

APARTMENTS ARE WASTING ASSETS

Residential units, whether single or multiple, have their highest earning value when new. From then on the trend is downward, with practically no exceptions, unless the district changes to a higher use. Scarcity and the fall in the dollar value may also operate to show an apparent increased property value. Otherwise, as a rule, residential properties come under the head of wasting assets.

An apartment built for a hundred people will not house more than a hundred tenants, no matter how much or how well the surrounding territory builds up; while a store having a hundred customers a day, when it first opens up in a coming district, may eventually serve several thousand patrons per day when the district becomes more fully developed, with the

consequence that the merchant is able to pay a greatly increased rent.

ACTUAL INCOME NOT ALWAYS A GUIDE

Generally speaking, it must be conceded that the value of a property cannot exceed to any appreciable extent the replacement cost of the building, plus what comparable land in the immediate neighborhood may be purchased for. However, we find now and then properties with net incomes which when capitalized at even a high rate show a value considerably beyond the replacement cost of the property. This happens when a property catches the public eye because of its special appeal, or because of a temporary lack of competition. We find such instances, for example, in new types of apartments, or in theaters when first built in a well-developed section with inadequate theater facilities.

A bond issue of \$165,000 on a theater property which was at that time showing a value of \$700,000 when its net income was capitalized at 6%, was turned down by a conservative eastern bonding company. The reason for refusing this loan was that the theater, completed within the previous six months, had been showing pictures of exceptional merit and had at the time little competition. It was furthermore under superlative management, and the entertainment provided included some sensational features which temporarily attracted capacity houses. A loan was made for \$250,000 by another company; and, as may be surmised, the lenders bought the property.

From what has been set forth in the foregoing, it is hardly necessary to say that it is highly erroneous to capitalize the income from such properties at the rate representing a conservative mortgage interest rate. Furthermore, we would not say that such an income is a warranted

one. It should not be an especially difficult task to estimate what would be a warranted income from such a property and then capitalize the income from it at a rate reflecting the evident fact that it belongs in the category of properties having sharply declining incomes.

Such instances, however, are rare. We would suggest that a part of the surplus income be set aside for the inevitable rainy day. When net income exceeds 10 or 12 per cent, intense competition usually sets in, and the wisdom of such a hedge against future contingencies will soon make itself evident; or the surplus may be capitalized at a very high rate and added to the total value of the property.

FREQUENT REAPPRAISALS THE ONLY REMEDY

As I have tried to bring out, any appraisal is merely an intelligent estimate of what appears to be a property's *present* value when viewed in the light of extensive and careful observation of many influencing factors (Few of us would claim to possess complete information of *all* influencing factors).

What we would appraise the same property at ten years from now or even three or four years from now, few of us have any adequate idea. The only way to find out what a property is worth after a lapse of years would seem to be through a re-appraisal.

Why subject ourselves to ridicule and embarrassment by pretending we can make an appraisal *now* which will hold good through the years?

HOW ABOUT APPRAISING FOR TAXATION PURPOSES?

Generally in appraising we try to estimate as far as we can what the future holds in store for the property under ap-

praisement. Appraisals for tax purposes are made in most states every year, recognizing the fact that *potential value* in the appraisal of real estate for tax purposes, has no more place than has potential personal income in figuring personal income tax—not unless by "potential value" is meant the additional value assigned to a property by disregarding the actual present rentals accruing when property lacks good management, and is improperly utilized, and instead capitalizing the rents obtainable if operated under adequate management and utilized to its full capacity. It would be proper to consider such potential value.

It is the warranted present *annual* income which should be capitalized to arrive at a proper tax base, with little or no regard to what the property may earn in the future, that is beyond the current tax year.

A WORD ABOUT THE APPRAISAL OF LEASE INTERESTS

Space will not permit making any extended comments on the appraisal of lease interests. I fear I have already shame-

lessly imposed upon the reader's good nature. However, when it is considered that the problems of the lessee are practically identical with those of the fee owner, from whom he has merely bought the right to the use of the property for a specified period, and into whose shoes he has stepped, it is evident that the appraisal of a lessee's interest is practically identical with the methods employed in appraising the fee owner's interest.

As for appraising a lessor's interest, that is obviously similar to finding the discounted present value of a note or bond; as the lessor's interests, like the note holder's consist of the right to collect definite sums at stipulated times, and the further right to repossess the principle (in the case of the lessor—the property) at the maturity of the contract (note or lease). If a well secured ground lease is under consideration, it is a very simple affair. Otherwise such a lease interest would be discounted by a purchaser at a rate which would reflect the risk involved, employing the usual Present Worth Tables for the purpose.



"Bracketing" in Appraising

By AYERS J. duBOIS, M. A. I.

POSSIBLY few persons engaged in real estate appraisal activities comprehend the significance of the term "bracketing" as applied to such activities. Notwithstanding this, the word refers to a practice which is essential in the intelligent use of appraisal techniques.

In the case of firing a big naval gun, a bracket is established by firing a projectile beyond the target and another short of it, thereby establishing an upper and a lower limit for the elevation of the gun. By repeated trials new brackets are established until that gun elevation is determined which will enable target hits—perhaps bull's eyes.

In real estate appraising the "bull's eye" is the actual value of the property under consideration. However, this can never be known, inasmuch as it is dependent upon the quantity, quality, and duration of benefits which will be produced by the property in the future, and these matters are themselves unknowable. For this reason, all that can be done is to *estimate* the value. The accuracy of the estimate must depend on the soundness of the appraiser's judgment. To be sound, his judgment must be subjected to controls which his reason sets up. These controls are in the nature of brackets; and the process of setting them up is what is meant by the word "bracketing." These brackets fix the upper and lower elevations, or limits, of his valuation "sights," just as the gunner's brackets fix the elevation limits for his gun in firing.

The appraiser starts out knowing but one thing, namely, that the property to be valued is worth zero dollars or more. He knows—if he is a good appraiser—that he

cannot find out *precisely* how much more and that, therefore, his value estimate is certain to be inaccurate. However, he knows that by bracketing he can reduce the inaccuracy to a point where, upon presenting his analysis and conclusions to a well-informed, intelligent person, the latter will say "That is as reliable and reasonable a valuation estimate as can be made. I am willing to accept it as a basis governing my actions in investing my money in this property." This point should be so stressed in discussions and articles on real estate appraising that it will not be forgotten or obscured.

Over and over again, appraisers by word of mouth and by written word say that the future cannot be precisely predicted and therefore the status of matters at the time of appraisal—the "present"—should be made the basis of valuation. While the premise is true, the conclusion drawn is not related to it and is false. Through the judgment controls provided by bracketing, estimates regarding the quantity, quality, and duration of future benefits, can be made and utilized in the appraisal process, and a conclusion can thereby be reached which, though incapable of proof as a mathematical solution can be proved, will, nevertheless, be acceptable to an intelligent person as a basis upon which to shape his actions in dealing with the property appraised. We can never hope to do more than just that—reach conclusions upon which enlightened persons will be willing to rely and act. And, let it be noted, the more that bracketing is resorted to in the appraisal process, the less error is there likely to be in the final value estimate, and the more convincing

will be the appraiser's analyses and conclusions.

THE FUNCTION OF TECHNIQUE

Many criticisms of appraisal techniques can be considered well founded only on the basis of the concept that these techniques were designed for the purpose of *determining* (the word is deliberately chosen and emphasized herein) value. If the appraiser so uses them, then he—not the technique—should be criticized. The proper use of appraisal technique is for the purpose of bracketing, thereby providing controls over the appraiser's judgment and limiting and minimizing the inaccuracies which inevitably characterize value estimates. To designate as incorrect a technique, or any phase of it, which finds support in reason and logic, and to advance some other technique as being *the* right one, is to take the position that techniques in themselves can produce the answer the appraisers would like to know—that is, the precise value of the property. But technique, no matter how logical, reasonable, practical, practicable, or time-honored, can really never produce this answer; they can do no more than provide brackets which will guide the appraisers judgment to the selection of a value estimate which intelligent persons will accept as reasonable and acceptable as a basis for investment decisions. If these points can be gotten over to the advocates of various techniques, it is believed that much, or perhaps all, of the confusion and contrariety of opinion now existing can be eliminated and that leading "authorities" in the appraisal field can be brought on to common ground where they can all see eye to eye.

Properties do have exact values, and there is a theoretically correct and perfect

technique for ascertaining these values. But this is just like saying that at a given instant in the future there will be a certain definite number of people within the corporate limits of a certain city and that this number can be ascertained by use of a certain known formula. While this would be true, certain items of the formula could not be precisely ascertained because it would be humanly impossible to do so. Therefore, to use the formula, estimates would have to be used in the place of exact data, with the result that the answer produced would be itself but an estimate instead of an exact measure. The ascertaining, therefore, of the exact number of people within the community, while theoretically possible, would be practically impossible.

This does not prove, however, that the formula should be discarded, for since it is sound in principle, its use would produce the greatest accuracy in making estimates. Similarly, the ascertaining of the actual value of a property is theoretically possible but practically impossible. This, however, does not mean that techniques which are sound in theory and principle should be discarded in favor of accepted practices which may have been blindly used for many years, but which may be unsound in principle. Theoretically correct techniques which may be defective in that they require use of estimates rather than exactly known quantities, will produce sounder and more accurate and reliable conclusions than techniques which are unsound in principle though given the stamp of approval arising from long-continued, but blind, use.

A series of illustrations will show how bracketing is fundamentally important in appraisal work and how acceptance of the concept that the proper use of various techniques or theories or processes is for

the purpose of bracketing rather than for determining value may lead to a unification of thought in appraisal circles.

BRACKETING A SINGLE-FAMILY HOME

First, let us consider the appraisal of a single-family residence. The appraiser knows the lowest possible bracket of value is zero. His first step is to establish the uppermost possible bracket of value. Note that at first he is merely establishing the *possible* extremes, not the *probable* ones. The reproduction cost of the property in new condition gives him his first upper bracket. This necessitates the making of a reproduction cost estimate relating to the building improvements. This step itself involves bracketing for he realizes that cost estimating is not an exact science by any means, as evidenced by variations in the bids made by different building contractors based on the same set of drawings and specifications. So the appraiser may estimate reproduction cost on a "square foot of floor area" basis, on a "cubical content of building" basis, and by means of a quantity survey method. The several results will act as brackets for his final judgment as to the figure to be selected as the cost estimate relating to the building improvements.

Having chosen a building improvement cost estimate with the aid of bracketing, the appraiser next must assign a value to the site before he can complete his first step, that is, make an estimate of the replacement cost of the property—that is, of the land and improvements and all rights of ownership relating to them. In choosing a figure for a land value, bracketing must be resorted to.

The appraiser knows that the lowest possible land value bracket is zero. He knows that the highest possible bracket is dependent upon the intensity of the desire

for ownership of the site by people to whom residence in the district under consideration would be attractive. This in turn would depend on a multitude of matters which will not be discussed here. However, one important matter would be the prices at which similar sites could be bought in other districts, possessing appeal for people of the same characteristics. By adjusting such prices for any superiorities or inferiorities between the various sites to which the prices relate, brackets of possible land value would be produced and the appraiser's judgment would be formed with their aid. Perhaps a high price paid for the particular site under consideration at some previous time when high price levels prevailed in all departments of the nation's business structure might act as the uppermost bracket of possible land value. The price recently paid for an inferior site might fix an additional lower bracket. At any rate, it is plain that before choosing a land value for this residential site, the appraiser must resort to bracketing if he is to perform his function intelligently.

Having selected a land value and a figure representing reproduction cost of building improvements in new condition, the miscellaneous indirect elements of cost, such as pro rata of taxes during construction period, insurance and interest on invested capital during that period, and so on, would next be estimated. The three amounts so chosen when added together, would produce the reproduction cost of the property in new condition, and this would constitute the uppermost *possible* bracket of value for the residential property.

The next objective is to establish other brackets, both upper and lower, so that the final estimate will be as accurate as is practically possible. The appraiser turns to sales prices for properties which are

near enough alike to the property under consideration to enable significant comparisons. Through comparison and bracketing, he can mentally arrange them in the order of their desirability and respective values. Thus, he will conclude that property No. 1, under appraisal, is better and more valuable than No. 2, but not as valuable as No. 3. No. 4 is better than No. 1, but not as valuable as No. 3. By this bracketing process, a sales price probably obtainable for the property being appraised is estimated. This price will fit into the appraiser's bracket system and give him another point of reference in reaching his final conclusion.

By making an income analysis and capitalization, still other brackets can be determined. If the gross rental value is not readily determined, rentals paid for other accommodations of equal, better, and inferior quality will serve as brackets in making the estimate. The amounts to be deducted from gross rental value in order to estimate net rental expectancy may be chosen in some instances without bracketing and in others with the aid of bracketing. For example, in selecting a factor for collection losses and vacancies, the appraiser is likely to contrast conditions affecting occupancy in the property under analysis with those affecting other properties with which he is familiar. In the one case he estimated that 5% was sufficient. In this case conditions are not so favorable; therefore, the allowance should exceed 5%. In another instance 10% was used, but the conditions there were not as good as in the case now engaging attention; therefore, the allowance should be less than 10%. In still another case 7.5% was thought by him to be reasonable. Conditions were about the same as the ones he contemplates will affect this particular property, but were, however, slightly

more favorable. Through such comparisons and bracketing he concluded that 8% is a reasonable allowance for the case under appraisal.

Having estimated proper deductions from the gross rental value, the appraiser obtains an estimate of net income based on the expected gross income for the ensuing 12 months. Next he estimates the period of time which an intelligent investor would accept as representing a fair estimate of the time during which the building improvements will be valuable. In other words, he estimates the remaining economic life of these improvements, selecting a figure which he believes would be acceptable to an intelligent investor as the maximum period allowable in reason within which the value of the improvements must be recaptured from the income obtainable from the property. In making this estimate bracketing is again resorted to. Zero is the first lower bracket and estimated physical life—that is, the period during which the building improvements will probably be safe for human use—of a similar new building is the highest upper bracket. Then, as he contemplates the relative durability of the structure, the relative excellence of its design and functional qualities, the relative stability of the desirable characteristics of the environment of the property, the probable trend of tax burdens, and the probable trend of value of the site and those nearby which comprise the immediate neighborhood, his judgment will lead him to set up other brackets. Furthermore, he will establish brackets, as in the case of using sales and listing data, by making comparisons between the subject property and others which he has appraised.

At this point in the making of the capitalization analysis, the appraiser has completed his estimate of expected net in-

come, based on the expected gross income for the ensuing 12 months, and has made an estimate of remaining economic life of the building improvements. His next step is the capitalization of his net income estimate. It is at this point where various authorities in the appraisal field come into disagreement with each other; and it is here that I wish especially to point out that there is common ground for them to stand upon. They can, I believe, be brought into agreement, provided they are willing to recognize merit in any technique which is based upon such principles and provided they will admit the truth of the points which I have stated and which I believe to be axiomatic. These points summarized are as follows:

1. Value depends on the quantity, quality, and duration of benefits which a property will produce in the future.
2. The future is unknowable.
3. Therefore, the value of property is unknowable.
4. Therefore, valuation techniques can never determine value and cannot properly be used for such a purpose.
5. Values can be estimated.
6. It is impossible to prove that a value estimate is correct.
7. It is possible by means of valuation techniques to demonstrate that a value estimate is based on reasonable premises and that higher or lower estimates would either be less reasonable or no more reasonable.
8. The only function, therefore, which valuation techniques can properly perform is to provide brackets for value estimates, limiting them within bounds which intelligent well-informed individuals would consider to be reasonable.
9. Any valuation technique which enables the fixing of value or estimate at a point identifiable as being outside of, on the approximate border of, or within the zone of, reasonableness, is a valuable aid in real estate appraising.

In this paper the appraiser has been brought to the point where he is ready to make use of capitalization techniques. He realizes that any result he obtains by capitalization will be but an indication of the

value of the property, provided the premises underlying the technique are applicable and reasonable. He may recognize that the underlying premises in one technique are beyond the zone of reason, in which case he will know that the result produced by that technique is a value estimate of like character. Another technique which is more logical and reasonable in its underlying premises will, he knows, produce a more reasonable and acceptable value estimate.

Among many techniques which are available at this point are these:

1. A further deduction for so-called "depreciation" may be made from the estimated net income already arrived at and the resulting remainder treated as a perpetuity and capitalized by use of an "over-all" rate of capitalization.
2. The same procedure as in "1" may be followed, except that "split" rates may be used; that is, the estimated net income may be divided as between land and building improvements by assuming a value for one or the other, computing the earnings on the value so chosen, and deducting the earnings so determined from the total net earnings to ascertain the earnings attributable to the other agent in production, and using different rates of capitalization for land earnings and building earnings.
3. The estimated net income (based on the expected gross income for the ensuing 12 months), without deduction for so-called "depreciation," may be treated as a level annuity for the estimated economic life of the building improvements, capitalized by use of discount factors, and the worth of a land reversion at the termination of economic life of building improvements be calculated.
4. (a) The amount of earnings representing a fair return upon an assumed land value may be deducted from the total estimated net income, and the remainder treated as a level annuity for the estimated economic life of the building, using an "over-all" rate of capitalization, or (b) a value may be assumed for the building improvements, a level annuity based on this value and continuing for the economic life of the improvements calculated and deducted from total estimated net income, and the remainder capitalized to get an estimate of land value, using an "over-all" rate of capitalization.

5. The same procedure as in No. 4, may be followed, except that "split" rates are used.
6. The same procedure as in No. 5 may be followed, except that the annuity is assumed to rise or fall according to stated premises.
7. The estimated net income already determined may be treated in the same manner as in No. 3, except that it is treated as the first of a series of annual incomes which rise or fall according to stated assumptions during the economic life of the building.
8. The same procedure as in No. 4 may be followed, except that the annuity is assumed to rise or fall according to stated premises.

There are other techniques which might be listed, but the eight outlined above are all in common use today. Each has its champion, all have their critics. But the important thing for every appraiser to realize is that none of them can give an answer which can be proven to be correct. If any criticism is merited regarding the use of any of these techniques, the criticism can only properly be aimed at the *purpose* for which they are used. No criticism is merited if they are used for bracketing purposes, and this—let me state it again so that I may drive this point home—is their rightful function. If anybody champions a particular technique on the grounds that it is the *right* one to use for the purpose of estimating value or determining it, his arguments must fall flat; for all these techniques are right ones for value *estimating* purposes, none of them is wrong for such purposes, and all of them are wrong for value *determining* purposes.

Some illustrations showing how these techniques furnish brackets will probably be illuminating, applying them from this point on to a small business property.

BRACKETING A SMALL BUSINESS PROPERTY

In a given case a corner in an outlying business district of a large city was newly improved with a one story brick building consisting of eight store rooms. A sum-

mation estimate produced the following result:

Replacement cost of property in new condition, exclusive of land.....	\$15,000
Assumed land value.....	35,000
Total replacement cost of property in new condition	\$50,000

An income analysis produced the following figures:

Gross rental value ensuing 12 months	\$6,000
Allowance for vacancies and collection losses	768
 Gross effective income, ensuing 12 months	 \$5,232
Deductions for taxes, insurance, current for street lighting, water, janitor, repairs, replacements, management, etc.	1,438
 Estimated net earnings ensuing 12 months	 \$3,794

Applying the eight techniques described above would produce the following results:

TECHNIQUE 1—STRAIGHT-LINE FUTURE DEPRECIATION, OVER-ALL CAPITALIZATION RATE.

Estimated net earnings ensuing 12 months	\$3,794
Deduction for future depreciation in value of building—\$15,000 ÷ 35 (estimated economic life)....	429
 Capitalized value of \$3,365 in perpetuity, 7.5% over-all rate.....	 \$3,365

Remarks: This technique presumes that value of improvements will decline in a straight line which, in turn, implies that net earnings will decline in the same manner, as demonstrated by the following:

Estimated net earnings.....	\$3,794
Earnings of land: \$44,880 minus \$15,000 gives land value, \$29,880 (7.5% × \$29,880)	2,241
 Earnings of building.....	 \$1,553

It is assumed these building earnings will decline in a straight line during 35 years economic life, each year returning \$429 (1/35th) of the original value of the building and also returning each year 7.5% interest on the remaining unrecovered original value. Thus, in the last year the return will be \$429 plus 7.5% of \$429 or \$461. The earnings, therefore, can be split into two series: (1) \$429 per year for 35 years; (2) a series beginning at (\$1553 less \$429) \$1124 the first year and declining 1/35th of \$1124 (which equals 7.5% on \$429) each year.

Present worth of \$429 per year, 35 years, 7.5% rate ($\times 12.27$).....	\$ 5,264
Present worth of annuities declining as per above (\$1124 \times P. W. factor of 8.658)	9,732
Value of building earnings as described.	\$14,996

If a stable price structure were to exist during 35 years, the appraiser realizes that net earnings would not decline in a straight line but in some fashion less precipitate. Therefore, he knows that if the 7.5% rate chosen is a fair over-all rate, then the resulting capitalization of \$44,880 is probably less than a reasonable estimate of value.

TECHNIQUE 2—STRAIGHT-LINE FUTURE DEPRECIATION, SPLIT RATE CAPITALIZATION, LAND EARNINGS RESIDUAL OR BUILDING EARNINGS RESIDUAL.

The second technique described would produce the following result:

(a) <i>Land earnings residual</i>	
Estimated net earnings ensuing 12 months	\$ 3,794
Deduction for future depreciation in value of building.....	429
Remainder	\$ 3,365
Earnings imputable to building valued at \$15,000 at 8%.....	1,200
Residual earnings of land.....	\$ 2,165

Capitalization of land earnings at 7% (\$2,165 \div 7%).....	\$30,900
Value assigned to building.....	15,000

Capitalized value by use of "split" rates of 8% and 7% land earnings residual.....	\$45,900
<i>Note:</i> Equivalent over-all rate = 7.35%.	

If instead of assuming a value for the building, a value of \$35,000 is assumed for the land, the following results are produced:

(b) <i>Building earnings residual</i>	
Estimated net earnings, ensuing 12 months	\$ 3,794
Earnings to support land value of \$35,- 000 at 7%.....	2,450
Residual earnings of building.....	\$ 1,344

Capitalization of building earnings at 8% return on capital value and 2.86% re- turn of capital each year (1/35th per year for 35 year estimated economic life), a total rate of 10.86%.....	\$12,400
Value assigned to land.....	35,000

Capitalized value by use of split rates of 7% and 8%, building earnings residual.....	\$47,400
<i>Note:</i> Equivalent over-all rate = 7.25%.	

The use of split rates, as in this technique, rests on the reasoning that if the land owner were to lease the land for 99 years, his property rights (i. e., the leased fee) would properly be appraised by use of say a 6% rate. Ownership of the leased fee would be less risky and burdensome than ownership of the fee unencumbered; therefore, the earnings imputable to land owned in fee unencumbered would properly be capitalized at a higher rate than the leased fee. Immediately upon improving the land by erecting a building upon it, management burdens and additional risks are created; therefore, the net earnings of the property would be properly capitalized at a still higher rate which would, of necessity, mean that the additional net earnings attributable to the buildings would, if treated separately for valuation purposes, properly be capitalized at a higher rate than that applicable

to the land in fee unencumbered. There are other justifications for the use of split rates which need not be recited here as they have appeared in various books and publications from time to time. The principles underlying "split-rate" techniques are logical and correct, but the use of such techniques is subject to the same criticism applying to all other techniques based on sound principles, namely, that the appraiser cannot develop his judgment to the point where he can exercise such fine discrimination in making estimates, selecting capitalization rates, income premises, and so on, as to warrant total reliance on the result produced by use of a single technique. He is warranted only in using the result as a bracket after which he must establish other brackets by means of other techniques.

In the case of Technique No. 2, as in the case of No. 1, a straight line decline in earnings is postulated, a premise which is not true to realities. In the illustration with land earnings residual, an over-all capitalization rate of 7.35% is reflected; in the building earnings residual illustration the reflected over-all rate is 7.25%. In considering the two brackets furnished by Technique No. 2, the appraiser may feel that his land value estimate in "(b)" is not worthy of as much reliance as the indicated capitalized residual land earnings in "(a)"; in such event, he would consider the value of \$45,900 more acceptable than the \$47,400 estimate. Considering the \$45,900 estimate and the \$44,900 produced by Technique No. 1, he might conclude that in view of the relatively small building investment as compared with land value (approximately a 1 to 2 ratio) the net over-all return of 7.35% was sufficient and, therefore, the \$45,900 estimate was more acceptable than the \$44,800 one.

TECHNIQUE 3—LEVEL ANNUITY, LAND REVERSION, OVER-ALL RATE CAPITALIZATION.

Estimated net earnings ensuing 12 months	\$ 3,794
Estimated economic life of building—35 years. Present worth of 1 per annum for 35 years, 7.5% = 12.273.	
Capitalized value of property earnings for 35 years ($\$3,794 \times 12.273$)	46,500
Value of land reversion occurring at end of 35 years, assuming land value at that time of \$35,000, 7.5% rate ($\$35,000 \times .0756$)	2,800

Indicated capitalized value of property.. \$49,300

One of the following assumptions underlies this technique:

1. That future deterioration and obsolescence will not affect the earning ability of the property during the economic life of the building, thereby permitting it to produce undiminished net earnings during that time; or
2. That the estimated amount of net earnings for the ensuing 12 months represents an average of the probable future yearly net earnings during economic life—a so-called "stabilized" net earnings estimate.
3. That land value will rise proportionately to and simultaneously with decline in building value.

The third assumption may be summarily dismissed as being unreasonable and unworthy of reliance. Regarding the first of these assumptions, it may be said that it is illogical and unsound for deterioration and obsolescence inevitably must produce depreciation, that is, lessening of earning ability and of value. Obviously the net earnings could not continue undiminished for 35 years and then drop to zero as far as the building is concerned.

The second assumption has some merit. As an average, it must result from a combination of yearly net earnings which are both higher and lower than the estimate for the ensuing 12 months. It is admitted that net earnings can fluctuate both upwards and downwards. However, up-

ward fluctuations can result from only three main causes:

1. Increased utility and desirability (for example, resulting from city growth which makes business property more desirable because it can serve more people).
2. Changes in the value (i. e., purchasing power) of money which produce ability to command more dollars, although utility and desirability may remain unchanged or even decline.
3. Shortage of available building space in terms of demand.

An upward fluctuation produced by the second cause produces the illusion that "value" has increased and earning power has increased, while utility and desirability have remained stationary or declined. The truth is that the price obtainable has increased, but the property is no more valuable and may even be less valuable. Now, no enlightened investor would willingly increase the amount he would think he was warranted in paying for a property simply because he expected that its future net earnings would be increased due to a price change. If he expected that the property would become more *desirable*, would become possessed of greater utility in the future, then he would be justified in paying a higher price than if he did not expect such a change to occur. The conclusion follows that if upward fluctuations in earning power are expected to occur, these expected fluctuations should not be given effect in the income estimate, unless a simultaneous enhancement in utility and desirability is also expected. Such fluctuations as may result from mere price changes are given effect in the choice of capitalization rates; an expected price rise will tend to depress capitalization rates and an expected price fall will tend to lift them, for a time at least.

Thus, if the appraiser anticipates an increase in desirability or utility, it is possible for him to select a plausible average

yearly net earning estimate for the period of remaining economic life. However, it is my observation that appraisers who use so-called "stabilized" rental values practically never use any figure different from current rental value, with the exception that sometimes they use a figure in excess of current rental levels, usually on the assumption that the current levels are not "normal" and, of course, there never can be a normal rental level as long as the value, i. e., purchasing power, of monetary units, is changeable.

With regard to the third main cause of earnings fluctuations, that is, shortage of available building space in terms of demand, it is to be noted that such conditions are but of temporary nature so that upward fluctuations to relatively high rental levels caused by this factor cannot be treated as though they will endure for long. Their effect on an "average" rental must, therefore, be very small; and if the high level exists at the time of appraisal, then the average would logically and properly be estimated at a lower level.

In the case which is the subject of the illustration, no conditions existed or were in prospect which would justify expectation of any measurable increase in utility or desirability, and the demand-supply relationship indicated a state of equilibrium. The appraiser, therefore, would realize that technique No. 3 would produce an upper bracket, not a lower one. He would realize that the assumption that future deterioration and obsolescence would not affect the earnings of the property would produce a high estimate, that the estimated net earnings for the 12 ensuing months would be higher than an average for the period of remaining economic life and he would reject the assumption that land value would rise proportionately to and simultaneously with decline in build-

ing value as being unsound in any event. If he anticipated a rise in land value, he would use a higher figure in valuing the reversion.

Proponents of those features of this technique which embrace handling the total property earnings, that is, earnings of both land and buildings, as a unit during economic life of the building, and handling the land value as a reversion, claim that this is preferable to splitting the net earnings estimate by allocation of portions of it to land and building and treating the portion attributed to land as a perpetuity. In support of the argument it is stated that investors are interested in the over-all rate of return, not in any division of earnings between land and building; and that even if the value chosen for the land as of the time of reversion is grossly erroneous, the value estimate will be little affected because the discount factor applying to the reversion will be great. For example, in the illustration in Technique No. 3, if the reversion were valued on the basis of a \$17,000 land value instead of \$35,000—a 50% drop—the result would be to reduce the indicated capitalization by only \$1,400, or less than 3%.

It may be granted that investors are interested more in the over-all rate of return than in split rates applicable to land value and building value. This, however, is no argument against the desirability of using techniques which utilize split rates, for such techniques furnish valuable brackets and help to the selection of an acceptable over-all rate of return. As to the argument that it is preferable not to split the estimated earnings and to treat land as a reversion, little merit can be attached to it as will be seen by considering Technique No. 4.

TECHNIQUE NO. 4—LEVEL ANNUITY, SPLIT EARNINGS, OVER-ALL RATE OF CAPITALIZATION.

(a) *Land earnings residual*

Estimated net earnings, ensuing 12 months	\$ 3,794
Building earnings: Necessary level annuity to support building value of \$15,000 during economic life period of 35 years, 7.5% over-all rate ($\$15,000 \div 12.273$)	1,222
Earnings of land.....	\$ 2,572
Capitalization of land earnings, 7.5% rate ($\$2,572 \div 7.5\%$).....	\$34,300
Value assigned to building.....	15,000
Indicated capitalization value of property.....	\$49,300

(b) *Building earnings residual*

Estimated net earnings, ensuing 12 months	\$ 3,794
Land earnings: 7.5% on assigned value of \$35,000	2,625
Earnings of building.....	\$ 1,169
Capitalization of building earnings: Present worth of \$1169 per year, 7.5% rate, 35 years ($\$1169 \times 12.273$).....	\$14,300
Value assigned to land.....	35,000
Indicated capitalized value of property.....	\$49,300

It will be noted that the result produced by Techniques No. 3 and No. 4 (b) is the same, namely \$49,300. Ordinarily No. 4(a) and (b) will produce different results. In this case rounding the figures off makes the results identical for all three techniques. If Technique No. 3 is acceptable insofar as the resultant estimate is concerned, then Techniques No. 4 (a) and No. 4 (b) are equally so. The difference in these techniques is simply that in No. 3 a land value is definitely and expressly assumed as of 35 years in the future while in No. 4 a land value is definitely and expressly assumed as of the time of appraisal and is assumed to exist indefinitely into the future. The point is hardly subject to question that there is always a better basis for estimating a presently ex-

isting land value than one lying in the future, especially the distant future. Obviously Technique No. 4 has all of the advantages of No. 3 and fewer deficiencies.

Objection may be raised to Technique No. 4 by saying that it assumes land value to continue unchanged and that the value may go up or down. This is a valid objection not only to Technique No. 4 but to No. 3 and all other techniques as well which treat land earnings as unchanging perpetuities. The objection can readily be overcome by assuming a changing land value, if some reasonable assumption can be made on which to base the estimate. For example, assume that the land value will decline to \$17,500 in 35 years. The procedure in Technique No. 4 would be no different than before but the terminology used would differ, as seen by the following:

(c) *Assuming decline in land value to \$17,500 in 35 years*

Estimated net earnings, ensuing 12 months	\$ 3,794
That part of land earnings which may be treated as a perpetuity (\$17,500 × 7.5%)	1,312
Remainder of earnings, partly attributable to land and partly to building....	\$ 2,482
Present worth of \$2,482 per year, 35 years, 7.5% (\$2,482 × 12.273).....	30,400
Value of perpetuity.....	17,500
Indicated capitalized value of property..	\$47,900

It will be noted that it is of no moment how the land value may fluctuate year by year. The total value estimate is controlled by the net earnings estimate, not by any fluctuating relationship between land value and building value. The point of importance, however, is to fix the amount of land earnings—based on an assumed land value—as of the termination of economic life of building. This is not necessary in Technique No. 4 if no change in land value is assumed.

The appraiser has already concluded that Technique No. 1 produced a lower bracket of \$44,900; No. 2 (a) superseded this with a lower bracket, as contrasted with any upper bracket—of \$45,900; the summation estimate gave him an uppermost possible bracket of \$50,000 which was superseded by the \$47,400 estimate of Technique No. 2 (b). He now sees that Techniques No. 3 and No. 4 (a) and (b) give him an upper bracket of \$49,300. He realizes that this result is predicated on production of an undiminished stream of yearly net earnings during economic life, an expectation which is unreasonable in view of the acknowledged fact that the building must become less valuable and therefore lose ability to produce net earnings. He concludes, therefore, that a reasonable value estimate must lie below the \$49,300 bracket of Techniques No. 3 and No. 4.

TECHNIQUE NO. 5—LEVEL ANNUITY, SPLIT EARNINGS, SPLIT-RATE OF CAPITALIZATION.

(a) *Land earnings residual*

Estimated net earnings, ensuing 12 months	\$ 3,794
Building earnings: Necessary level annuity to support building value of \$15,000 during economic life of 35 years, 8% rate (\$15,000 ÷ 11.654).....	1,287
Earnings of land:.....	\$ 2,507

Capitalization of land earnings, 7% rate (\$2,507 ÷ 7%).	\$35,800
Value assigned to building.....	15,000

Indicated capitalized value of property (approx. 7.30% over-all).....	\$50,800
--	----------

(b) *Building earnings residual*

Estimated net earnings, ensuing 12 months	\$ 3,794
Land earnings: 7% on value of \$35,000..	2,450
Earnings of building.....	\$ 1,344

Capitalization of building earnings: present worth of \$1,344 per year, 8% rate, 35 years ($\$1344 \times 11.654$).....	\$15,600
Value assigned to land.....	35,000

Indicated capitalized value of property (approx. 7.35% over-all).....	\$50,600
---	----------

In this illustration there is little difference between the results of Technique No. 5 (a) and (b). If the value assigned to land and building were more nearly equal, the resulting estimates would differ by larger amounts. As between these techniques, the greater reliance would be placed, properly, on the one in which the land value estimate seemed most worthy of acceptance, as in the case of Technique No. 2 (a) and (b).

In view of the appraiser's summation estimate of \$50,000 which sets the uppermost possible value bracket, the results indicated in Technique No. 5 must be rejected since they exceed \$50,000. If the appraiser is satisfied with the reasonableness of the underlying premises of this technique, he would conclude that his summation bracket was the one to select for his final value estimate. He realizes, however, that the same assumptions underlie this technique as in the case of No. 3 as discussed above. Therefore, he realizes that the most reasonable value estimate must be less than \$50,800 and \$50,600. He has already decided the estimate should be under the result produced by Techniques No. 3 and No. 4—\$49,300—, so Technique No. 5 does not further assist him in this case.

TECHNIQUE NO. 6—FLUCTUATING ANNUITY, SPLIT EARNINGS, SPLIT-RATE OF CAPITALIZATION.

(a) Land earnings residual

Estimated net earnings, ensuing 12 months	\$ 3,794
Building earnings: necessary first year's net earnings of a series continuing for 35 years and declining as per Premise No. 2, Table II, Babcock's "Valuation	

of Real Estate," 8% rate, to support building value of \$15,000 (\$15,000 ÷ 10.423)	1,439
---	-------

Earnings of land.....	\$ 2,355
-----------------------	----------

Capitalization of land earnings, 7% rate (\$2,355 ÷ 7%)	\$33,600
Value assigned to land.....	15,000

Indicated capitalized value of property (approx. 7.30% over-all).....	\$48,600
---	----------

(b) Building earnings residual

Estimated net earnings, ensuing 12 months	\$ 3,794
Land earnings: 7% on value of \$35,000..	2,450

Earnings of building, ensuing 12 months.	\$ 1,344
--	----------

Capitalization of building earnings: Value of series of annuities fluctuating as per Premise No. 2, Table II, Babcock's "Valuation of Real Estate," beginning with \$1,344 and continuing 35 years, 8% rate (\$1,344 × 10.423).....	\$14,000
Value assigned to land.....	35,000

Indicated capitalized value of property (7.25% over-all rate).....	\$49,000
--	----------

In Technique No. 6, recognition is given to the observed truth that buildings gradually decline in value and that, therefore if a stable monetary price structure and no rise in land value are assumed, then net earnings will decline during the economic life of a building so that the building earnings will be slightly above zero in the last year of economic life and will disappear thereafter. It cannot successfully be denied that real estate net earnings do not decline as precipitately as a straight-line premise presumes; and, on the other hand, barring declines in the value (purchasing power) of money and increases in land utility (value), neither can they be expected to continue undiminished during the economic life of a building. If this is a reasonable and logical statement—and I certainly believe it is—then it follows that a technique which is founded upon a premise lying in between these two extremes,

that is, between the level annuity premise and the straight-line declining annuity premise, is more reasonable than either of them. The premise used in the illustration of Technique No. 6 is an "in-between" premise. Therefore, the appraiser realizes that the results produced will fit in between the \$45,900 lower bracket supplied by Technique No. 2 (a) and the \$50,800 bracket of Technique No. 5 (a). However, he has tentatively accepted the \$49,300 bracket of Technique No. 4 (a) as a controlling upper limit. This now becomes superseded by the \$48,600 estimate of Technique No. 6 (a) which he chooses in preference to No. 6 (b) because he feels the indicated land value of \$33,600 is more likely to be correct than his tentative estimate of \$35,000. He now has a lower bracket of \$45,900 and an upper one of \$48,600.

With regard to the "fluctuating annuity" premise illustrated in Technique No. 6, it has been said, by way of criticism, that it is impossible to estimate future variations in net income and therefore such a premise should not be introduced into valuation techniques. It is not only true that future variations in incomes cannot be precisely forecast, but it is also true that an average of future net incomes cannot be precisely forecast; and it is equally true that the current rate of net income will not be maintained without fluctuations in the future. It is evident, therefore, that if the fluctuating-annuity premise is to be ruled out, then all other premises dealing with future income must be ruled out, for all are defective.

It has also been said that the use of a fluctuating-annuity premise implies that real estate earnings can be forecast with certainty. The criticism is not well founded. No more certainty is implied in an earnings estimate which recognizes

that buildings gradually decline in value, than in one which assumes they do not and that, therefore, current net earnings may be assumed to continue either undiminished, or accepted as a fair average of all future yearly earnings. There is, however, more logic and reason and soundness in the first estimate than in one based on the stated assumption.

The criticism is also advanced that investors do not base their estimates on fluctuating-annuity premises. While this is possibly true, the reason for it is that investors are unaware of the existence of techniques which utilize such premises. It is reasonable to believe that any investor will gladly accept any premise which is founded on reason and which, furthermore, gives effect to known facts. Explorers and pioneers must go ahead of the crowd. Likewise, appraisal leaders must go beyond the horizon which constitutes the limit of vision of the mass of buyers and sellers.

It matters not whether the current rate of earnings is treated as a perpetuity after a deduction for future depreciation, or whether the current rate is treated as an undiminishing annuity or as a declining annuity for economic life. Underlying each such procedure is a forecast regarding the amounts of future net earnings and the criticism that you can't estimate future fluctuations applies with equal force to each and every such procedure. However, the procedures which are more logical and reasonable are worthy of greater reliance. At the same time, all procedures are useful for bracketing purposes; but the appraiser must understand the underlying premises so as to be able to classify the various results according to the extent of the reasonableness of these premises.

TECHNIQUE NO. 7—FLUCTUATING ANNUITY, LAND REVERSION, OVER-ALL RATE OF CAPITALIZATION.

Estimated net earnings, ensuing 12 months	\$ 3,794
Assigned land value as of termination of economic life of building 35 yrs. hence, \$35,000. Point to which it is assumed net earnings of property will decline in 35 years ($\$35,000 \times 7.5\%$).....	2,625
Amount by which it is assumed earnings will decline	\$ 1,169
Capitalization of net earnings: Present value of level portion of earnings, i. e., \$2,625 per year: \$2,625 for 35 years, 7.5% rate ($\$2,625 \times 12.273$).....	\$32,200
Present value of fluctuating portion of earnings, i. e., \$1,169 per year down to zero: 35 years, 7.5% rate, Babcock's premise No. 2 ($\$1,169 \times 10.901$).....	12,700
TOTAL	\$44,900
Value of land reversion: Present value of \$35,000 discounted for 35 years at 7.5% rate ($\$35,000 \times .0796$).....	2,800
Indicated capitalized value of property..	\$47,700

TECHNIQUE NO. 8—FLUCTUATING ANNUITY, LAND OR BUILDING RESIDUAL, OVER-ALL RATE OF CAPITALIZATION

(a) <i>Land earnings residual</i>	
Estimated net earnings, ensuing 12 months	\$ 3,794
Building earnings: necessary first year's net earnings of a series continuing for 35 years and declining as per Premise No. 2 of Babcock's 7.5% rate, to support building value of \$15,000 ($\$15,000 \div 10.901$)	1,376
Earnings of land.....	\$ 2,418
Capitalization of land earnings, 7.5% rate ($\$2,418 \div 7.5\%$).....	\$32,200
Value assigned to building.....	15,000
Indicated capitalized value of property..	\$47,200
(b) <i>Building earnings residual</i>	
Estimated net earnings, ensuing 12 months	\$ 3,794
Land earnings: 7.5% \times \$35,000.....	2,625
Earnings of building, ensuing 12 months.	\$ 1,169

Capitalization of building earnings: Present value of series of fluctuating annuities beginning with \$1,169 and declining as per Premise No. 2, Babcock, 35 years, 7.5% rate ($\$1,169 \times 10.901$)....\$12,700
Value assigned to land..... 35,000

Indicated capitalized value of property.. \$47,700

It will be noted that Techniques No. 7 and No. 8 (b) produce identical results. This will always be so because the earnings estimates are identical in each case, although there is a slightly different concept underlying the two techniques. This difference is the same as between Techniques No. 3 and No. 4(b) explained hereinabove. These techniques are the same as No. 3 and No. 4 except that a fluctuating-annuity premise is introduced in place of the level annuity premise.

As between the brackets produced by Techniques No. 8 (a) and (b) the appraiser concludes that land value indicated in No. 8 (a), namely, \$32,200, is more to be relied upon than his estimate of \$35,000 used in No. 8 (b). Therefore, he feels that of the two brackets produced by these two techniques, the \$47,200 estimate produced by No. 8 (a) is more acceptable. Before using these techniques he had established a lower bracket of \$45,900 by Technique No. 2 and an upper bracket of \$48,600 by No. 6 (a). Now he must decide whether or not the \$47,200 estimate will supersede the \$48,600 as an upper bracket. The only difference in the underlying premises is that the \$48,600 estimate, arrived at by use of split-rates, is based on an equivalent over-all rate of 7.30% while the \$47,200 represents an over-all rate of 7.50%. We will assume that inasmuch as the building value is a relatively small part of the total value, the 7.30% return is fair and reasonable; therefore, the \$48,600 estimate remains as the upper acceptable bracket.

The question then is whether or not the \$47,200 estimate shall supersede the \$45,-

900 estimate as the lower acceptable bracket. Comparing the premises of the two techniques which produced these results, namely No. 2 (a) and No. 8 (a), the appraiser notes that the lower estimate resulted from a "straight-line" depreciation premise which is equivalent to a certain type of straight-line declining annuity while the higher estimate predicated a declining earnings estimate in the nature of a curve lying between a straight line premise and the level-annuity premise. Feeling that the straight-line premise does not fit the case because it is too severe, he rejects the \$45,900 estimate as a lower bracket and accepts the \$47,200 one in its place. This leaves him with an upper bracket of \$48,600 and a lower one of \$47,200.

The last two accepted brackets compare as follows:

1. Both are based on the same income assumptions and premises, that is, declining income forecast, land earnings residual.
2. Both assume a building value equal to cost, that is, \$15,000, and justify the assigned value by the apportionment of adequate income to support it.
3. The higher estimate reflects a land value of \$33,600.
The lower estimate reflects a land value of \$32,200.
4. The higher estimate, based on 8% and 7% split rates, shows an equivalent over-all return of 7.30%. The lower estimate is based on and shows an over-all return of 7.50%.

The appraiser next observes that a land value of \$600 per front foot would produce a total land value of \$32,400, as the lot is 54 feet wide. He concludes that a reasonable value estimate for the property would be \$47,500, of which he would allocate \$32,500 to land and \$15,000 to building. This value estimate is equivalent to a net return of approximately 7.50% on the basis of a declining income as described in Technique No. 8 (a).

The illustrations embodying the fluctuating annuity premise made use of a declining annuity series. Any other kind of

a series could be utilized so long as it had a basis in reason. For example, it might be assumed that gross and net income would rise for a few years in the immediate future and then that decline in building value would slowly make itself felt.

A point which cannot be too strongly or frequently emphasized is that income estimates used in capitalization techniques are *not* forecasts of actual incomes: they are but plausible estimates of what the income would most likely be if the positive and negative fluctuations occurring from time to time and incapable of estimation were ironed out into a smooth income stream which ignores short-term changes in distant years but which over the period of economic life moves in the general direction which reason and logic indicate it will most likely take.

Since eight capitalization techniques have been presented, the reader may conclude that the use of all eight is advocated in each individual case. This is not the intention. All eight techniques are in common use. It is desired here to show how they can be used to provide value-estimating brackets. When all are applied to one problem, as in the illustrations, it is easy to compare and contrast the underlying premises and to differentiate the varying degrees of reasonableness which characterize them. In practice, the appraiser will likely use three of them in making computations, namely (1) one of the "straight-line future depreciation" techniques; (2) one of the "level annuity" techniques, and (3) one of the "fluctuating annuity" techniques. This will equip him not only to choose a value estimate but to demonstrate why higher or lower estimates would not be as reasonable and well-founded as the one he picked. If he makes use of the "split-rate" premises, he will calculate the equivalent over-all rate as a further bracketing process. If a split-

rate process is used, selection of a "land residual" or "building residual" premise will depend on the nature of the case in hand. If the building is not new, a "building residual" basis is the most logical and reasonable one.

BRACKETING RISKS

Another use of bracketing in appraising occurs in the use of capitalization rates. There is a proper rate of capitalization in any case but the most that can be hoped for in practice is the selection of a rate which appears to be reasonable. Capitalization rates depend largely on risk. Risk refers to the possible occurrence of future changes which may cause loss of capital or income. These changes cannot be known; therefore, risk cannot be measured: it can merely be estimated. Likewise, the correct capitalization rate cannot be known but can only be estimated.

Thus in any one of the capitalization techniques, several rates of capitalization can be used for bracketing purposes. For instance, in Technique No. 8 (a) different rates would produce the following results:

	<i>Land</i>	<i>Building</i>	<i>Total</i>
Technique 8(a) — 7%			
over-all rate	\$35,500	\$15,000	\$50,500
Technique 8(a)—7½%			
over-all rate	32,200	15,000	47,200
Technique 8(a) — 8%			
over-all rate	29,450	15,000	44,450

By considering the several results produced by the different rates of capitalization, and measuring their reasonableness in the light of the cost estimate, the reliability of the income analysis and the various classes of data used, a refinement of judgment can be accomplished and more confidence can be placed in the capitalization rate finally chosen. For instance, by the 8% rate above a result of \$44,450 re-

sults. The appraiser feels this is a low value estimate and concludes that 8% is too high a rate. The 7% rate produces a capitalization of \$50,500 which is slightly above the replacement cost estimate. Some merit is recognized in this estimate, but the appraiser feels that in view of the absence of any monopolistic characteristics in the site and the possibility of competitive sites being improved and perhaps producing adverse effects, therefore, the 7% rate is low and a higher rate would be more reasonable. He concludes that a rate approximating 7½% would be acceptable.

Variations in split rates can be used in the same way for bracketing and thus assist in valuation work.

BRACKETING EASEMENTS

This subject of "Bracketing in Appraising" is one about which you can write on and on interminably almost. In every department of appraisal procedure, bracketing must be resorted to if a well-founded conclusion is to be drawn. Take the appraising of easements for another example.

The maximum possible bracket of value for an easement is the value of the property in fee simple unencumbered. A surface easement might be as valuable as the worth of fee in the land over which the easement was granted. This amount would be the upper value bracket for a sub-surface easement in the same land. The value of a surface easement along the rear boundary line of a parcel of ground would, perhaps, fix the lower value bracket of an easement which crossed the parcel diagonally or through the middle or in some other way. The value of the diagonal easement might fix the upper value bracket of an easement crossing the parcel in some different manner.

BRACKETING LEASEHOLD ESTATES

In the case of appraising leasehold estates bracketing again serves a useful purpose. The leasehold must be less valuable than the freehold; so the latter supplies one bracket. A second upper bracket is furnished by the difference between the value of the property in fee simple unencumbered and the value of the leased fee. The capitalization rate for valuing a leased fee is less than that which applies to a freehold while the rate for a leasehold is greater than that for a freehold. The rate for valuing a sandwich leasehold is less than that applicable to a subleasehold and greater than the rate for the freehold.

Certainly one thing which is very much needed today in the appraisal field is a joining together of those who are looked to as "authorities" in an open examination of the merits of the various techniques used by appraisers. This involves a restatement of the premises, expressed or implied, upon which these techniques rest. It should be no difficult matter then, if open-mindedness be allowed to govern, to recognize in these premises varying degrees of correspondence to reasonableness, and to agree in classifying the prem-

ises accordingly. The outcome would be that the various estimating techniques would be recognized as useful guides in bracketing estimates, and the final estimate would be characterized as more or less reasonable according to the reasonableness of the premises upon which it was mainly based. The individual authorities would no longer be condemning this technique or that one unless it was misused. They would all recognize the shortcomings and imperfections inherent in every technique and at the same time acknowledge a field of usefulness to each one—not for value determining purposes but for bracketing purposes, that is, furnishing upper and lower value brackets, and bracketing the judgment of individual appraisers by showing them upper and lower boundaries of reasonableness of the concepts underlying various techniques.

Let us hope that the future will bring us rapid progress along the line of unification of thought and concept by leading appraisers, for without it future progress will be slow, while with it the headway that will be made will undoubtedly be very surprising. The idea of "bracketing" may be the key we have been searching for.

* * *

Appraising As a Profession

By HARRY GRANT ATKINSON

REAL estate men concerned with the development and advancement of their vocation are faced with two great problems. One of these problems is the safeguarding of the vocation through the protection of real estate ownership; and the other is the problem of professionalizing the real estate business.

Real estate ownership must be desirable and profitable. This is basically important to the real estate business. If the ownership of real property is not desirable, if it is not profitable, if it is a liability instead of an asset, there will be no customers for it. No one will want to assume the burden of ownership; no one will want to risk loans on real estate as security. There will be no lenders, no buyers, no market, and, consequently, no real estate business.

The very existence of the real estate business is dependent upon profitable ownership of real property. Anything that makes such ownership less desirable is a menace to the real estate man, whether he be an appraiser, a broker, a mortgage loan specialist, a builder, or a manager. High taxes, unwarranted restrictions, cut-throat competition, uneconomic and unsocial utilization, incompetent or vicious appraising, and other influences that detract from real property values cut deep into the pockets of Realtors.

Real estate has always been vulnerable. It is a form of wealth that cannot be concealed. It is the source of the three fundamentals that sustain life—food, clothing, and shelter. And it has always been open to the attacks of misguided and vicious forces. It has always been a prey to the visionary, the schemer, and the

politician. It has always been subject to maltreatment at the hands of well-intentioned but ignorant novices.

PROTECTION OF REAL ESTATE OWNERSHIP

Therefore, the protection of real estate has always been a vital problem for the real estate man. Ultimately he learned that he could not deal with the problem single-handed. The issues were too big for any one individual to master. The opposing forces were too powerful and aggressive on too many widely separated fronts for scattered real estate men, though many in number, to conquer through independent effort. To meet this situation, forward-looking real estate specialists organized themselves into real estate Boards, State Associations, and a National Association.

The first efforts of these groups were directed at the pressing problems closest at hand. These included the development and conduct of tax reduction campaigns, the enactment of license laws, the combatting of legislation adversely affecting real estate, and the development of commission schedules.

These associations—local, state and national—grew in membership strength and prestige. They became important factors in community growth and stability. They not only protected real estate ownership, but they also helped their individual members develop new business. They enlisted the interest and enrolled the services of the ablest real estate men in the nation to serve on their Boards of Directors and on their important committees. No finer or more able group of men have ever been drawn together to work in a common

cause by any institution, or by any business or professional body.

There is no need to dwell here on the record of achievements which has made your National Association a great and powerful institution. Realtors everywhere are familiar with the success it has had in license legislation, in publicizing and establishing the dignity of the term "Realtor," in defeating the obnoxious stamp tax on real estate transfers, and in the inauguration of the six-point tax program that has already provided relief to the extent of many millions of dollars to property owners in some of the states. They are familiar, too, with the Association's plan for the establishment of a Federal Mortgage Discount Bank, and the fact that its efforts in this direction resulted in the Home Loan Bank System, the Home Owners' Loan Corporation, and the Federal Housing Administration. All of these compromise institutions are by-products of the efforts of the National Association to establish a Federal Mortgage Discount Bank; and they are, we believe, merely the fore-runners of a great national banking system that will serve real estate credit in the same way that the Federal Reserve System now serves Commercial credit.

These achievements of the Association in safeguarding the real estate business and in protecting real estate ownership constitute a record of which all realtors may well be proud. But they are merely indicative of the larger and more far-reaching program that lies ahead of us and which is now claiming the attention of the Officers and the Committees of the National Association—a program big enough and important enough to challenge the best talent in the Association and to merit the whole-hearted and eager support of every man who makes his living in the real estate business.

PROFESSIONALIZING THE VOCATION

But it is the second great problem of the real estate man to which I wish to direct your attention at this time—*the problem of professionalizing the vocation*. In the work that is being done to solve this problem is to be found some of the most interesting and important developments in the economic history of the country. Here are to be found changes in attitudes, changes in policies, and changes in practices that are revolutionizing the real estate business, that are changing it from a business to a profession, and that will ultimately bring the qualified real estate man a security and a dignity comparable in all respects to those enjoyed now by members of the medical and other well-established professions.

This movement to professionalize the work of the real estate man began to take definite form just about twelve years ago when Louis F. Eppich of Denver, Colorado was President of the Association. In that year Realtors everywhere were talking and writing about "elevating the real estate business to a professional status." This thought was expressed in one form or another by nearly every speaker at the Annual Convention in Detroit in June, 1925, and at the Mid-Winter Convention in New Orleans in January, 1926. It was expressed over and over again in the State Conventions throughout the country. It found its way into every issue of the National Real Estate Journal, it was discussed from various angles, directly or indirectly, in dozens of articles in the Association's annual publications entitled *Annals of Real Estate Practice*.

The interest in the problem was widespread, and keen; but there were few who seemed to have any clear conception of just what was necessary to do to convert the business of the real estate man into a

profession. There were no sharp differences of opinion, nor were there any clear-cut conceptions of note as to just what constituted a profession. The feeling developed, more or less without conscious direction, that professionalization meant specialization. This led to the organization of a number of Divisions within the National Association of Real Estate Boards—the first definite step towards the professionalizing of the business. There was a Division for the Broker; another for the Home Builder; another for the Mortgage Man; another for the Industrial Property Man; another for the Cooperative Apartment man; another for the Property Manager; and, finally, one for the Appraiser. These Divisions were, as we see them now, nothing more than discussion groups whose activities consisted of national conventions and the publication of bulletins.

CHARACTERISTICS OF A PROFESSION

It wasn't until the American Institute of Real Estate Appraisers was formed to supersede the old Appraisal Division that we began to have a clear appreciation of the essential elements that must be present in any vocation before it can be made into a profession. And we can now say with some assurance that there are eight primary requisites for the professionalization of our vocation.

The first of these requisites is that *the vocation must be recognized by the public as a profession*. Such recognition is a mark of respect and confidence constituting the most valuable asset any group can have. It is the most valuable asset any individual can have. You can't do business unless the people with whom you deal have confidence in you. Respect for your ability and faith in your integrity are essential. This is exemplified by the man

who falls desperately ill in a strange city and who turns to the telephone book and calls an M.D. He is not personally acquainted with the physician; but there is no doubt in his mind. He calls *any* M.D. with full confidence that the diagnosis will be right, and the treatment as effective and sure as science and human knowledge can make it. The doctor is recognized as a *professional* man.

There is, therefore, a very practical aspect to this matter of having your vocation recognized by the public as a profession. Such recognition has a definite dollars and cents value. It eliminates sales resistance. It lowers selling costs. And that is, of course, the primary reason that appraisers want to be known as professional men.

But the public is discriminating. It will not recognize a vocation as a profession merely because the members of that vocation advertise themselves as such. After spending hundreds of thousands of dollars advertising and publicizing the term "Realtor" through a period of fifteen years, we must admit that the public in general does not yet accord the unqualified recognition to Realtors that is accorded to physicians and Certified Public Accountants.

That raises the question of what specific things must characterize a vocation to lead the public to realize that it is a profession, and brings us to the consideration of the second requisite: *The vocation must be one of vital importance to human welfare and progress*. Civilization in America is so organized that we could not get along without the real estate appraiser. That is because we can't get along without mortgages, sales, real estate accounting, and other vital real estate transactions that involve estimates of value as indispensable.

The vital importance of real estate appraising is nowhere better illustrated than in the tragedies we have witnessed in this country during the last depression. None of these have been more heart-breaking, none have been followed by more bitter consequences, than the disasters caused by incompetent and dishonest appraisals of real property. Nothing has brought more havoc into the personal lives of people; nothing has brought more confusion into business relations based upon faith in real estate.

Haphazard purchase of property when the consideration represents the savings of a life-time is unavoidable unless the transaction is based upon sound appraisal. The investor, whether a lone widow or a great life insurance company, who buys real estate mortgages based on incompetent or fraudulent appraisals takes risks as great as the speculator takes in margins on the stock or grain exchange.

The relationship of sound appraisals to human welfare has been officially recognized by the Federal Government in some of the sharp regulations that have been set up in the Federal Securities Act. In several states there are already well-defined movements for the enactment of laws to require appraisers of real property to be licensed. These proposals are not purely revenue measures. They are inspired in part by a growing realization on the part of the public that real estate appraising does serve fundamental and economic social needs.

The third requisite for a profession is that *the vocation must be a calling which requires the services of experts to give guidance to persons who are not experts.* It is obvious that this is true of the physician. It is true of the teacher. It is true of the relationship between the lawyer and his client. It is true of the Cer-

tified Public Accountant and the clients whom he serves. It is quite often true of the appraiser and the person whose welfare is affected by his opinions of value.

The buyers and sellers of fees and of leasehold interests in real estate are seldom competent to judge real estate values. The buyer of mortgages and bonds, likewise, is not a specialist in judging the actual worth of the property securing the loans. They are dependent upon the competency and integrity of the appraiser. This dependency of the individual served by the appraiser is recognized either directly or indirectly in a great many of the different Rules of Professional Conduct that have been adopted by the American Institute of Real Estate Appraisers.

The fourth requisite for a profession is that *the vocation must be based on a body of knowledge with which the beginner must be familiar before he can practice efficiently.*

The American Institute of Real Estate Appraisers has definitely recognized this requirement and has organized a clear-cut educational program to meet it. This program consists of two major activities. First, there is the publication of a quarterly magazine devoted exclusively to detailed technical articles on various phases of real estate appraising. This magazine is intended as an educational medium not only for the Member of the Institute but also for students of real estate valuation everywhere. The first issue came from the press in October, 1932. It is a young magazine; but its circulation has spread into the offices of insurance companies, blue sky commissioners, security commissioners, judges, lawyers, and banks throughout the country. It is publicizing "M. A. I." from one end of the continent to the other. It is bringing prestige and appraisal assignments to Members of the

Institute. Most important, it is stimulating appraisal thought as nothing else has ever done; and it is leading the public to think of the "M. A. I." as a professional man.

The second phase of the Institute's education program consists of a series of Case-Study Courses designed to give thorough instruction in fundamental concepts and principles of valuation, and a practical training in appraisal procedure. Two of these courses were offered in conjunction with the University of Chicago in August, 1935. They were models of thoroughness and attracted the attention and admiration of universities throughout the country. Realtors with appraisal experience came from 26 states to spend four weeks in these courses. Included among the students were such men of prominence as the chief appraiser of one of America's largest life insurance companies, the presidents of two state Associations, the heads of the real estate departments of two large metropolitan banks, and scores of other men who had already achieved recognition in their respective local communities.

This year the Institute is offering three different courses at the University of Chicago, and it is expected that there will be more applications for enrollment than there are places in the classes. These courses are increasing public respect and public confidence in the ability and sincerity of the Members of the Institute. They are convincing the public that the Institute *has* a body of knowledge with which the appraiser should be familiar before he can practice efficiently. The Institute is making splendid progress in meeting the fourth requirement for professionalization.

The fifth requisite of a profession is that *the vocation must have a recognized standard of ability that it enforces as a*

requirement for admission so as to admit only the skilled and competent and exclude the amateur.

No group in the National Association has done more to meet this professional requirement than the American Institute of Real Estate Appraisers. This Institute requires each candidate for admission:

1. To show that he has had eight years experience as an appraiser with a good record.
2. To demonstrate that he has done creditable work in the past by submitting copies of at least three satisfactory appraisals he has made for clients.
3. To pass a written examination to demonstrate that he
 - A. Is familiar with the By-Laws.
 - B. Is familiar with the Institute's Rules of Professional Conduct.
 - C. Is familiar with terms commonly used in, or allied, with, real estate appraising.
 - D. Understands the effect of the purpose of an appraisal on valuation procedure.
 - E. Knows how to analyze the economic background of a property.
 - F. Knows how to assemble, classify, and analyze appraisal data.
 - G. Knows how to measure and interpret reproduction cost.
 - H. Knows how to measure and treat depreciation.
 - I. Knows how to analyze and interpret property operations, including statements of income and expense, maintenance, management, fixed charges, and other related factors.
 - J. Knows how to use the capitalization process, including the selection and justification of the capitalization rate.
 - K. Knows how to appraise leasehold interests.

L. Is proficient in handling the comparison approach in the appraisal process.

M. Is proficient in the handling of the reproduction cost approach in the appraisal process.

N. Is proficient in the handling of the income approach in the appraisal process.

O. Knows what an appraisal report should contain.

Less than twenty percent of the men who have applied for membership in the Institute have been admitted. It may make a mistake here and there by admitting some one who should be excluded, or by excluding some one who should be admitted; but the Admissions Committee and the officers are sincerely and conscientiously trying to be 100% efficient in meeting this fifth requirement for a profession.

Already the public is recognizing the professional status of the Members of the Institute. Already "M. A. I." has achieved some of the dignity which the public accords to "CPA's" and "M.D.'s." Dozens of cases have come to my personal attention wherein an M. A. I. was given an important appraisal assignment by some distant insurance company, bank, or other client, who knew only that he was an M. A. I. although not acquainted with his ability or experience. The professionalization of real estate appraising is definitely bringing assignments in increasing volume to Members of the Institute.

The sixth requisite for a profession is that *the vocation must have a recognized standard of integrity and conduct which it enforces upon its individual members while they are practicing.* The American Institute of Real Estate Appraisers has adopted forty Rules of Professional Conduct which it has publicized repeatedly not only to all members of the Institute, but also to the country at large. Prospective

clients are increasingly aware of the fact that the M. A. I. is definitely obligated to observe strict rules of ethics in the performance of his services. These rules are building up public confidence for Members of the Institute.

They are not artificial regulations, for the Institute has a Disciplinary Committee to which is referred all cases involving an M. A. I. charged with unethical or unprofessional conduct, and the By-Laws provide that any Member who is guilty of violating these rules may be expelled without recourse.

These rules of conduct are very practical matters. They have a dollars and cents significance. They are not arbitrary regulations. They are self-imposed rules of conduct expressive of moral principles deeply embedded in the very fibre of the race. They reflect the ideals of the public in the group and are imposed by the majority as curbs upon the uncertain impulses of the marginal member. There is not one of them that did not grow out of the clash of personal greed against the welfare of the group. They are presumably designed to protect the public, or the client, but they are also intended as a protection to the profession itself. Unethical conduct on the part of one member tends to reflect discredit upon all members of the profession indiscriminately, thus impairing the confidence the public has in the group and in its individual member.

The seventh requisite for a profession is that *the members of the group individually must have the ability to serve well.* The public is "fed up" with incompetency in the real estate business as well as in other businesses. It is sick of fly-by-night appraisers. It holds in contempt the appraiser whose chief concern is the size of the fee he will get on the assignment. It is in a temper to fine and imprison the

appraiser who is incompetent or dishonest. Evidences of this are foreshadowed in the regulations of the Federal Securities and Exchange Commission. The public knows that real estate appraising *ought* to be a profession. It is beginning to demand that it be made one.

The Institute is trying sincerely to meet this seventh requisite. Its technical magazine, its Case-Study Course, its Rules of Ethics, its strict admission requirements, are all designed to earn for its Members the confidence of the public that an M. A. I. is an individual who can be *depended upon* to render the *highest* type of service.

Finally we come to the eighth requisite for a profession. *It must be a vocation whose members are fired with a progressive and constructive group spirit.* It has been inspiring to the officers of the American Institute of Real Estate Appraisers to note the *esprit de corps* of the organization. No member declines to accept an appointment to serve on a regular or a special committee even though his acceptance involves personal sacrifice of time and money. Perhaps the most striking evidence of this spirit is the fact that the members of the organization almost without exception pay their membership dues for the entire year within thirty days after the first of January. In these times this is an impressive testimonial. I know of no other organization that has such a record.

Appraisers who have met the rigid entrance requirements and who have as

members witnessed the constructive work the organization is doing seem eager to have some personal part in the further advancement of the institution. They are cooperative in securing subscribers to the Institute's magazine, in referring business to each other, in advocating the Institute's Case-Study Courses, in writing articles for the magazine, in bringing the Institute and its work to the attention of public officials and financial institutions, and in combatting legislation that adversely affects the profession.

Real estate appraising is not yet a profession in the fullest sense of the word. It has not yet fully met all of the eight fundamental requirements. But it is making noteworthy progress; and it is only a question of time until an M. A. I. will everywhere be recognized without question as a thoroughly competent and reliable appraiser.

Prospects for the future in the field of real estate valuation were never brighter than they are now. There will be more real estate appraising in the next ten years than was done in the last fifty. The depression has so profoundly affected real estate values that it is going to be necessary to reappraise the whole country. There are millions of appraisal jobs in the offing—for tax purposes, for mortgages, for financial reorganizations, for inheritances and the settlement of estates, and for sales. The professional appraiser will have all the work he can handle. But it is going to be more and more necessary that he be a professional appraiser.



Advertising by Appraisers

AN OPEN LETTER TO M. A. I.s FROM J. GEORGE HEAD, J. P.

G ENTLEMEN:

Through the medium of your Director of Activities, Mr. Harry Grant Atkinson, an invitation has been received to acquaint you, as Members of the American Institute of Real Estate Appraisers, of the way in which we, your brothers on this side of the water, regard the practice of advertising for business by professional appraisers:

1. Whether it is considered permissible at all.
2. If permissible, its limitation, definition, and control.
3. The enforcement of such limitations as may be adopted.

The invitation is readily accepted in view of the fact that the object of your Members, as defined by Mr. Atkinson, viz., is one which we cherish in common with yourselves, and which has been the subject of careful thought and constant effort during the past few years.

In approaching the subject it is well first of all to define the area covered by the terms, which you and we respectively employ in describing our activities.

In your case the title of your Society is —“The American Institute of Real Estate Appraisers.”

In our country the term “Appraiser” is applied to one whose business it is to advise on the value of property and upon the incidence of those factors which affect that value.

In other words, he is a professional surveyor and valuer. If the question, therefore, be “What is the attitude of our Societies towards advertising by Appraisers in this limited sense?” the answer is quite a short one, viz.: Advertisement by a pro-

fessional appraiser is not approved, except in the form of what is called a card advertisement in the Press setting out the fact that the practitioner is prepared to carry out certain specified duties, and the specialties covered by the operations of the firm.

It is probable, however, that with yourselves, as with us, the term Real Estate Appraiser covers a wider ground than that of mere valuation. With us the full description is Auctioneer, Surveyor and Valuer, and the remarks in this letter are intended to apply to this wider range of business, of which the essential feature is that it is composite in its nature. It comprises as its base an element which is commercial, such as the letting and selling of land, houses and chattels. Out of the practice of these transactions, there arises a knowledge so important to the Community that the advice of the practitioner is welcomed, upon such subjects as the condition, value, and general incidence of the property with which he has been accustomed to deal. So arises the professional aspect. Thus the business, as generally conducted, contains a commercial as well as a professional element, and in considering its proper conduct, it is necessary to bear in mind this duality of nature, lest by too much licence on the one hand—or too severe restrictions on the other, one or other of the two departments be crippled.

For instance, by the prevention of advertisement of all kinds not only would the commercial or sale element be so stifled as to be in danger of fading out, but the public themselves might be hampered in realizing for their property the proper

market price. A further warning against undue severity in the imposition of restrictions is the fact that it tends to bring into being other bodies of practitioners, free to carry out the work without the hamper of the restriction. This is the experience of professional Societies over here, and the new Societies prosper just in proportion to the severity of the restrictions imposed on the members of the older ones. Again, the younger men, trying to build up a business, may find themselves forced to choose between making a living and enjoying membership of the "Professional" Society; a choice which leaves little doubt as to the result.

Practicability, therefore, is an indispensable element in any regulations which are contemplated; bearing in mind the advice of Samuel Butler:

"Nor strive to wind thyself too high
For mortal man beneath the sky."

On the other hand, advertisement, if entirely unrestrained, is capable of becoming so blatant and devoid of good taste as to be incompatible with even the most modest standard of professional dignity.

In view of these considerations the conclusion was reached that it was not desirable to exclude advertisements altogether, but that certain restrictions should be observed therein.

As to the extent of the restriction, it is obviously quite as difficult to decide upon this point as it was to arrive at the major decision as to advertising in general. Nevertheless, by differentiating between the various kinds of advertisement it is possible to distinguish certain unobjectionable forms, such as the card advertisement referred to in the early part of this letter. Next, upon the advertisements relating to the particular properties with which the practitioner has to deal, no re-

striction is placed, except that they should be decent and in good taste.

Advertisements are of course essential to the disposal of property. To prohibit them entirely would be as unreasonable as to forbid to a carpenter the use of tools. Further, the Agent owes it as a duty to his Client that the property which is entrusted to him for disposal shall be advertised, so that adequate value may be obtained therefor. Yet how often is it found that the advertisement is so framed as to bring into prominence, not the property which is for sale, but the individual who is employed to sell it. Instances of such self-advertisement will occur to all, as the kind of thing which should be avoided. In other directions also the form of the advertisement may be objectionable. For instance, cases (happily of rare occurrence) have from time to time been brought to the notice of the Council, in which auctioneers have adopted a Scriptural form of language. One man proceeded to describe the large gathering which attended one of his sales in words which ran somewhat as follows:

"Now there was gathered together unto him a great multitude of people. And he said unto them 'What lack ye? Behold, that which ye lack, that bring I now unto thee,' " and so on. Another man thanked God that he had through His special providence, been able to build up in ten years a highly successful business, and quoted actual texts from the Bible, illustrating the wonderful favor which had attended his efforts.

Now this kind of language, although importing a degraded form of humor, cannot fail to be offensive to many people, and is strongly deprecated by the Council. Enough, however, has been said to show that advertisements may be, in more ways than one, unworthy of the profession, and

that confinement within the bounds of decency and good taste is a necessary restriction. But it will be seen that the term advertisement embraces a wider range than that of the newspapers. It covers for instance circularizing and personal canvassing—and these two particular items present a great difficulty, for the reason that they tend to convey false impressions and even give rise to false statements. This practice has accordingly induced in the mind of the public (after a brief and transitory appearance of business activity) a sadly poor opinion of the ordinary "agent," an opinion which is reflected in the words "No Agents" which sometimes appear in newspaper advertisements of property for disposal. Such a lowering of public esteem is not only detrimental to the offender, but is reflected prejudicially on the whole body of practitioners.

The Societies have, therefore, appealed to their Members, emphasizing that aspect of Membership which relates to mutual duties as well as to mutual advantages. They have asked them to abandon indiscriminate circularizing and canvassing, pointing out that the practice, while prejudicial to the profession from the public point of view, results, as regards the Members themselves, in an internecine competition which, while not adding to their own earnings in the long run, inevitably introduces ill feeling between themselves and their competitors, and in this way is subversive of the whole object of the Society.

They point out not only that all that can be achieved by this improper competition, may be done better by friendly co-operation and by the sharing of commission on recognized lines, but also that Members, by means of the mutual help they render to and receive from their fellow Members, may actually find the scope of their oper-

ations substantially increased in more than one direction. It was felt, therefore, that an effort should be made to limit the extent, and determine the nature of the communications in which this form of advertising is embodied. The Council of the Auctioneers' & Estate Agents' Institute have prepared certain rules of conduct and have issued them to their Members. At the same time this code has been considered and adopted by the Chartered Surveyors' Institution, The Land Agents' Society and the Incorporated Society of Auctioneers, so that it is now in operation by the four principal Societies dealing with Real Estate in this Country.

This brings us to the last of the three points with which this letter deals, viz.: the means by which may be enforced the limitations deemed advisable by the Councils of the four Societies.

Now we have in this Country certain professions, such as Members of the Bar, Solicitors, and the Medical Profession, which are controlled by their representative Societies, to the effect that breach of the rules may exclude a member from practicing his profession at all. No such power, however, is vested in any of the Societies to which we belong, nor is it likely that it ever will be.

Any attempt to obtain it, by legislation, would be doomed to failure. Parliament is chary of granting such powers, lest they should be made the means of securing, not public benefit, but private advantage.

It is true that the Auctioneer, as well as the Appraiser, has to take out an Annual License, and there are indications that additional regulations may be imposed by the Authorities. But any control arising from such an arrangement is directed against breaches of the law of the land, and not towards improving the status of the profession. The latter is

our objective and must be pursued along other lines.

The task is not an easy one, but it has been courageously faced by the four Societies, in that they have agreed upon rules of conduct which they believe will remove the objectionable practices referred to, thus raising the tone of the profession as a whole, while confining the restrictions within reasonable limits.

The rules of conduct have been printed and circulated among the members, and every means has been taken, not only to make them known, but also to enlist the hearty co-operation of the members in carrying them into effect. The rules of conduct have received considerable publicity and approval, and it is confidently hoped that the Public will gradually become aware that the best professional service is to be obtained from Members of those Societies whose practice accords with the published rules.

Failure to obey the rules may entail expulsion, so that to this extent at least the Societies will exercise a restraining influence, even over those of their members who require mainly to see that observance will result in material advantage.

A print of the Rules of Conduct is appended to this letter, and on examination it will be seen that Advertisements, as such, are dealt with quite shortly (Rule 11) the only stipulation being that they should not bring the Institute into disrepute.

As to that branch of advertising which includes canvassing, they try to prevent its abuse while avoiding the risk of stifling legitimate business enterprise, by eliminating solicitation, in any form, either of instructions for professional work, or of employment for the sale or letting of properties where any other agent is known to be employed. On the other hand, in the

absence of such knowledge an application may be permitted, but in any such communication a saving clause is required to the effect that if another agent has been instructed, the writer should be referred to him. With these safeguards on the one hand, and on the other an exhortation to all members, to co-operate freely with one another, it is hoped to promote the four-fold aim of the Societies, viz.: to remove the objectionable features of advertisement; to establish good fellowship among members; to raise the profession of Appraisers in the public estimation; and to promote the welfare of those practitioners who conduct their business in a worthy and dignified manner.

From this side of the water we send you our heartiest wishes for the attainment of this praiseworthy ideal, which you, in common with ourselves, pursue for the true well being of our mutual profession.

J. GEORGE HEAD.

London, England, May 23, 1936.

The Auctioneers' & Estate Agents'
Institute of the United Kingdom
29 Lincoln's Inn Fields, London, W.C.2

RULES OF CONDUCT

January, 1934.

Article 38. The following shall be deemed to be fundamental Rules of the Institute:

RELATIONSHIP WITH OTHER PROFESSIONS AND OCCUPATIONS

1. No Member shall establish or join, either as principal or assistant, any commercial firm or undertaking for the purpose of carrying on or assisting to carry on professional business as an adjunct to or in connection with the commercial business of such firm.

2. No Member shall engage in or be connected with any occupation or business

which in the opinion of the Council is inconsistent with Membership of the Institute.

3. No Member shall directly or indirectly allow or agree to allow any person, other than a member of his own profession, to participate in his remuneration, but this shall not apply to the case of a partnership (existing on the 9th day of April, 1920) in business, openly exercised, of a Member with a member of any other profession.

4. No Member shall engage in work recognized as being properly that of a solicitor.

MEMBERS' RESPONSIBILITIES

5. No Member or Members shall convert his or their firm into a limited liability company unless under special circumstances, approved by resolution of the Council.

6. Members who are principals shall be held responsible to the Council for the acts of their partners and staffs so far as they relate to matters coming within the scope of their practice.

SALES AND LETTINGS

7. No Member shall directly or indirectly, in writing or verbally, seek instructions for business which he knows, or with ordinary care could have ascertained, is in the hands of another agent; nor, in other cases, without a definite intimation that if another agent has already been retained, instructions can only be accepted from, and as sub-agent to, that agent.

A Member who seeks instructions to deal with a property on which another

agent's board or notice is exhibited will be deemed to have disregarded knowingly this injunction.

Canvassing by personal call or by telephone by a Member or one of his staff is prohibited.

8. No Member shall offer any financial inducement to secure instructions, nor shall a Member charge, for effecting a sale, purchase, letting or taking, an amount of commission which, in the opinion of the Council, would be unfair to other Members.

SURVEYS, VALUATIONS AND WORK OTHER THAN SALES AND LETTINGS

9. No Member shall in any circumstances solicit instructions in any manner whatsoever. This injunction does not apply in the case of a client for whom a Member regularly acts.

10. No Member shall offer to accept instructions on the basis that no charge will be made unless a successful result is attained, nor shall a Member undertake work for charges which, in the opinion of the Council, would be unfair to other Members.

ADVERTISEMENTS

11. Members shall ensure that advertisements and other public announcements are not such as would bring the Institute into disrepute.

GENERALLY

12. No Member shall conduct himself in such a manner as to prejudice his professional status or the reputation of the Institute.



Residential District Permutations

By AUGUST B. SCHULTE

CITIES spring up at points adjacent to lines of travel. A river, a market road, a railroad may offer the impetus that results in a new community. A few dwellings at first, then a store, more dwellings, a church, a school, more stores to cater to the growing population, a bank, more business houses. Finally, business sections are established. These overlap the residential sections and the best of the residentials move farther and farther away from the original point of contact.

Growth of cities is usually in two directions—circular around the business district, and diagonal along the lines of transportation and communication with the outside world. This growth is dependent partly upon natural features, topography (hills, water fronts, creeks, swamps), which may be overcome by man if the facilities for transportation and communication are adequate, or if the establishment of commercial and industrial utilities warrants the expenditure. As the growth continues there is a constant but very gradual change, in both business and residential districts.

Residential districts form around the rim of the business districts, the lowest income group nearest, the wealthiest class farthest away, out in the surrounding country, and various shades and degrees of people forming layers so to speak between those two extremes. The distances in location of each class is governed by a

What of the city and the neighborhood, and the resulting influence on the value estimate? This question is constantly before the appraiser in his every day problems—infiltration, district migration, changes in population density and purchasing power—a hundred questions in one and yet each is significant in attempting a reasonable forecast of futures. This historical study of the transitory development of residential property in Philadelphia is of unusual interest in tracing to some extent the causes behind such movements. The author is an appraiser of wide experience and knows his Philadelphia. The same story, varied perhaps as to details, might well apply to many of our other large cities.—Ed.

combination of the time peoples have to get to and from their employment, the means of transportation available at any given time, and the cost of such travel. Migrations of these various classes take place when and as the business district expands, as immigration increases, as the transportation facilities improve, as the incomes of the various classes increase, and finally as building construction offers more and more in the way of modern conveniences.

As the city grows native born whites of the best class in any price range location change from their old established neighborhoods to the next best location formerly beyond their means. When and as they do, a slightly inferior class, first of native born whites, take up their old residences. This movement is followed by successively lower classes of native born whites. Then the foreigner enters and the same kind of infiltration follows on the heels of the native population. The foreign migration is followed in turn by the negro or other colored races. Eventually the expanding business of the city will push the negro out. Now these changes in the outer stratas are not always accomplished gradually and in an orderly manner.

However, from the point of the beginning of the infiltration by the foreigner, at least after the first few scattered sales by the wiser of the soon-to-be-departing native whites, and as the other people in each district learn of sales made to foreigners, many properties are quickly thrown on the market, sacrifice sales are made lest (as each owner thinks) someone may be left holding the bag. Prices drop precipitately and to very low levels and

there may be a serious lag. Later, however, when the foreigner is in control, prices definitely rise again, but only up to the level of prices paid by the first foreign buyers. Since by that time the first foreign buyers are ready to invade new territory, being able to realize costs, they grasp the opportunity to sell and enter in turn into better and newer native white neighborhoods. Such sales start prices going down again in the invaded districts and these districts finally being abandoned by foreigners are taken up by colored or the very lowest class of whites, foreign born and colored, making a "slum" condition just ahead of business absorption. Here again there may be a serious lag for a number of years, until business is able to expand into the ruined residential districts.

A DESCRIPTION OF THE ORIGINAL SETTLEMENT OF PHILADELPHIA AND ITS EARLY DEVELOPMENT BY INDIVIDUAL ENTREPRENEURS¹

"Some of the richest and most genteel merchants dwelt in Water Street prior to the year 1793, and some even afterwards. When they began to build as far west as Seventh Street and thereabout, it was considered a wonder how they could endure such fatiguing walks from their country residences to business. Previous to this change, and especially before the year 1793, when they were dispersed from their dwellings by the fear of yellow fever, all of the best and richest dwelt under the same roofs with their stores, situated then in Water or Front Street. After they began to change their domiciles from the water side to the western outskirts of the City, the progress of improvement then became rapid and great. It may mark the character of the change, to state, that when Mr. Markoe built his large double house out Market Street between 9th and 10th Streets, in the front centre of a fenced meadow, it was so remote from all city intercourse that it used to be a jest among his friends to say, 'he lived out High Street, next house but one to the Schuylkill Ferry.' It was then much more genteel to live out High Street than out

Chestnut Street. Chestnut Street and Arch Streets were then not even thought of to build on west of Tenth Street. Mr. Drinker's house near Second and Dock Streets became a fashionable boarding house in 1766 to 79 kept by Mrs. Graydon, at which lodged the Baron De Kalb, Col. Frank Richardson of the life guards, Lady More and her daughter, Lady O'Brien, Sir William Draper, and others. There, generally dwelt all the officers of the British Army then in town. State and grand balls were held in Water Street; there too, former Governors held their levees; and Pegg Mullen's beefsteak house was the fashionable resort. Finally, business crept into High or Market Street and the demand became so great that the large dwellings were purchased and their rich and beautiful walls were torn to pieces to mould them into stores. Front Street was the great wholesale street; Second Street both north and south was the place for retailers. Then no kinds of business could have succeeded west of Second Street. No merchants were seen exempted from personal labor in any branch of business, living on the profits derived from any hired journeymen; and no places were sought out at much expense, and display of signs and decorated windows, to attain custom. Then almost every apprentice, when of age, ran his equal chance for his share of business in his neighborhood, by setting up for himself; thus every shoemaker, tailor, tinman, blacksmith, hatter, wheelwright, weaver, bookbinder, barber, coppersmith, painter, cooper cabinet maker, etc., was a man for himself. In those days they did not aspire to much, they were more sure of the end, a decent competency in old age, and a tranquil, certain livelihood while engaged in business. Men did not become suddenly rich by monopolies, but went through life, gradually but surely augmenting their estates without the least fear of bankruptcy. All prices were alike and the percentage of gain was uniform, there was no motive to run about town to seek undersellers."

"For facilitating trade, and developing commerce, a society was organized in 1682 under the title of 'The Free Society of Traders' granting extraordinary privileges and 20,000 acres of land in trust; factories were to be set up, storehouses and ships to be built, and pelts to be bought from Indians. An agent was to sell the goods in London and the business in Pennsylvania was to be managed by four officers. All this tended to increase immigration, but as people arrived and settled, they probably found they could do better by themselves than in the company, and its schemes were not carried out. We give the names of many interested, as the descendants of some exist here today. Dr. Nicholas More, James Claypole, Philip Ford, William Sherloc, Ed. Pierce, John

1. Taken from an old pamphlet in the archives of The Historical Society of Pennsylvania.

Syncock, Thos. Brassey, John Sweetapple, Robt. Turner, John Bezer, A. Elton, John Bennston, Walter King, Thos. Barker, Ed. Brookes, F. Plumstead, F. Burroughs, Ed. West, John Crow, John Boy, Joseph Martin, Edward Pelroad, Thos. Holme, Gruff Jones, and James Hamson."

"Manufacturers—In the complete magazine, printed in England for August, 1764, this special notice appears: 'Some beautiful specimens of the cotton manufactures, now carried on at Philadelphia, have been lately imported and greatly admired.' To this may be added the fact that General Washington, when he first appeared as President at New York, and took his public oath of office before the people there assembled, was wholly clothed in beautiful cloth of American fabric. Mr. Cornelius made most elegant mantel and hanging lamps; his manner of succeeding in that, and in silver plating, is a very curious history and could be well told at length."

Commerce—With regard to the early commerce of Philadelphia, it appears that there were built in

1722	10 vessels	428 tons	96 cleared
1723	13 vessels	507 tons	99 cleared
1724	19 vessels	959 tons	219 cleared

TWENTIETH CENTURY HOUSING MIGRATION IN PHILADELPHIA

The greatest "housing migration" took place in Philadelphia when, upon completion of the Market Street Subway elevated to 63rd Street, in 1907, the people of South Philadelphia moved en masse to West Philadelphia. The development of the thirty-fourth ward was probably most typical of this movement.

Haddington, the southwest part of the 34th Ward: From the records, it can be learned that John Rhoads as early as 1847 first settled on the land known as Haddington, a small village that grew up about "Whitesides Tavern" near the present Sixty-fifth and Haverford Avenue. In area, this district embraced the section of the City lying between Fifty-fourth, Market, Sixty-third Streets, Cobbs Creek Park, Sixty-ninth Street, Haverford Avenue, Lansdowne Avenue to Fifty-fourth Street. Italians settled in Haddington in

the section West of 60th Street and North and East of Cobbs Creek Park, taking up the old style houses abandoned by the original settlers. The section east of 60th Street and north of Market Street was developed rapidly by operative builders and settled by native born whites. The families who bought and occupied the original operations have since moved on in waves northwards. Negroes coming into the district in their wake have now made the section their own. How soon they will penetrate north of Lansdowne Avenue is a problem.

Overbrook, the northwest part of the 34th Ward: William Bedward, a Quaker of Welsh extraction, appears to have been the first settler in Overbrook but the Georges, Wynnes, Jones, and other families also played an important part in its development as early as 1680. Most of the housing in the section has been built since 1910 and much of the cheaper type since 1920.

Overbrook up to as late as 1900 was devoted to farms and landed estates. Lying just south (within the corporate bounds of the City of Philadelphia) of the group of exclusive "Main Line" (of the Penn. R. R.) suburbs from Overbrook to Paoli, it was long the best and most fashionable residential district of West Philadelphia. The first building development here (1890 to 1910) was known as "Overbrook Farms" in which subdivision and the surrounding sections many mansions of the wealthier citizens of the City were built, most of them surrounded by extensive grounds. The first breakdown from this type of development (1910) came in the form of large and fashionable apartment houses and then finally the inevitable operations of row houses (1915-1925) into which the Italian is now moving.

Wynnefield, the eastern part of the 34th Ward: John Wynne, physician to Wm.

Penn, was first in Wynnefield, a section centering along Fifty-fourth Street, the route of Old Lancaster Road but bounded by City Line, Belmont Avenue, Parkside Avenue, Columbia Avenue, Upland Way, Fifty-seventh Street, Woodbine Avenue, back to Fifty-fourth, and City Line.

Most of Wynnefield has been developed, too, since 1910 and the cheaper types in greater volume since 1920. This growth is due to the suburban movement of the Jewish population of Philadelphia. The remarkable thing about the families here is that in the same household you may find a Yiddish speaking mother with all her typical trappings of Russian Jewish Orthodoxy and a college bred daughter with a New England accent. Since Wynnefield is now almost entirely developed, infiltration into adjacent Overbrook to the West is proving to be another immigration to the promised land.

POPULATION, INCOME AND SAVINGS

The population of the United States increased from 76 to 122 millions or by 60% between 1900 and 1930. Most of this increase came in the form of immigration from Europe to our eastern seaboard; and Philadelphia, being the second largest port of entry, received and had to absorb multitudes of these foreigners. Increased business resulted in greatly increased earnings for both the emigrant and our own people; and a great demand for new housing followed. Our national income increased five-fold in dollars; but, after allowance is made for price changes, the real increase amounted to 120%. In calculating the total gain, however, we must consider, too, the 13% decrease in hours of work, making an additional net increase of satisfactions in social benefits. A flow of money savings into investment

channels in excess of the requirements of the capital markets is a comparatively new phenomenon in the United States. Throughout our earlier history, that is, until the beginning of the Twentieth Century, after which time most of the expansion of housing as described in this article happened, the requirements of business enterprises for funds with which to develop new capital were in excess of the supply emanating from the savings of the people. The deficiency was made good by borrowing from abroad and by the expansion of commercial banking credit.

In the last twenty years, however, the situation has been profoundly altered. As a result of a higher average level of income and particularly because of the concentration of income, the volume of money savings flowing to investment channels has so greatly increased that the balance has been shifted. Instead of having a deficiency of investment money, we have a surplus. This accounts not only for the rapid opening up of new areas for development, extension of transit lines and the tremendous number of houses built, but it accounts, too, for the unsound high prices paid for properties, based on fictitious values which were in turn the result of competitive bidding of funds for investment. One does not have to go far for the answer to the boom of the roaring twenties when it is realized that sound demands for investment funds needed for purposes of constructing new plants remained practically unchanged from year to year at \$5,000,000,000, while the volume of funds seeking investment was in the neighborhood of \$15,000,000,000. Bidding up the prices of real estate and of outstanding securities, and loans abroad accounted for the absorption of these enormous surpluses during this great boom.

TRANSPORTATION

The first public approach to West Philadelphia from the city proper was by ferry, the first and most important (middle) of these ferries was at Market Street, the second (upper) or Spring Garden and the third (lower) at Grays Ferry Road. Market Street crossing got the first bridge completed in 1805. Other bridges both north and south of Market Street followed, the one at Spring Garden Street being a very important one to the development of West Philadelphia North.

The district was first opened up by a system of diagonal roads dating back to 1690 and leading to and between the various original settlements. Original transportation lines were quite naturally along these routes. The first "carrier" was the stage coach, then the local omnibus which reached the peak of popularity in 1855. The first street railroad in Philadelphia received permission to operate in 1857. Motive Power was supplied by horses. These lines were known as Delaware River R. R. Co., later the Frankford and Southwark City Passenger R. R. Co., Philadelphia and Darby R. R. Co., West Philadelphia Passenger R. R. Co., Hestonville, Mantua and Fairmount Passenger R. R. Co. Subsequently, many new companies were formed and new lines built and better equipment added. Consolidations and mergers led to the formation of the Philadelphia Rapid Transit Co. in 1902. In 1911 direction came under Mitten Management and comprehensive extensions and improvements have followed down to date, notably the system of high-speed lines (subways and elevateds) with numerous feeder lines of "Toonervilles" and busses. The first of these, the Market Street subway-elevated, was opened up in 1907 and numerous feeder lines followed down to date. The first electric trolleys

were run on Bainbridge and Catharine Streets in 1892. By 1896 practically all lines were electrified.

HOUSING AND BUILDING TECHNIQUE

The first type of housing, aside from the few "Georgian" mansion houses of the rich and successful leaders, took the form of row or semi-detached houses of brick or stone with some few frame.

Their plan was of a parlor in front, a kitchen in back on the first floor, a box cross stairway to the second floor, with a bedroom front and back over the two first floor rooms. Then a blind stairway led to a third floor attic under a small gable roof with a dormer window front and back. There were no interior conveniences. Lamps were used for illumination, portable range stoves for cooking and for heating water for the Saturday night bath (in wash tubs) in the kitchen. In the parlor, there was a stove for heating. The cold water hydrant was outdoors together with an outside water closet.

Next came the "band box" type of house with no more conveniences. In the rear of those facing on the street additional houses were crowded up abutting courts with but one common hydrant for water and one community "privy."

The houses following these were a considerable improvement on the types already described. They were the first of the "areaway" plan. The smallest were two stories—14' x 36' and had a living room, dining room, kitchen, and frame shed on the first floor with three bedrooms and a bathroom on the second floor. The hall and closed stairway was independent of all rooms. There were also larger houses—16' x 40'; 16' x 46'; 16' x 50', and 16' x 54'—some with third floors having rooms to the front and a roof deck back. These houses had central heating plants

in the basements known as "hot air furnaces" supplying heat to all rooms by means of tin heat flues built into the wall. There were gas lights from built-in piping, coal ranges in the kitchens with water backs and storage tanks to supply hot water for kitchen and bathing use. Hot and cold water was piped to the bathrooms which were equipped with old built-in (unsanitary) plumbing including tin tubs framed in wooden boxes and high water tank water closets. This type represented a great forward step and satisfied housing needs over a long period of years.

At the beginning of this century (1900) new and improved conveniences became available for modern houses. Electricity replaced gas. Steam circulation through pipes from a center boiler in the cellar was an improvement on hot air furnaces. Open sanitary plumbing was introduced with vitreous china finished fixtures for kitchen and bathroom, gas ranges for cooking, and either gas coils or small coal stoves in the basements circulated hot water. Now (1910) came the first use of hardwoods both in the interior trim throughout the house and for floor surfacing in the living room, dining room, and bathroom. This was the first attempt to glorify the house and was quickly followed by a cheaper construction but having the same facilities, even more improved, however, by the use of circulating "hot water" heat (an advance over steam). A garage built in the rear part of the basement housed the inevitable "flivver" which by now, thanks to Henry Ford, was becoming cheap and popular.

Then (1920) came the masterpiece of

the Operative Builder, the full de luxe two-story row houses. The lots were terraced and planted in front and wide concrete driveways led to basement garages in the rear. Beautiful effects with press brick, tile, stucco, and stone were built into the fronts. Elaborate enclosed porches, finished with plaster and paper inside, were made en suite with the living room and dining room. The new kitchens, full of gadgets of all kinds, were the answer to women's ardent prayers. The bathrooms of tile walls and floors with built-in bathtubs and showers, pedestal washstand, low tank water closets, plate-glass mirrors, outrivaled the famous "Roman baths" of the last days of Pompeii. Of course, there were hardwood floors throughout, special built-in fixtures, and enameled white and tinted trims together with new effects in wall coverings and paneling. In these de luxe models, we reach the greatest achievement of efficient utility in plans and equipment and the last word in ornamentation.

By 1925 eighty-three per cent of the housing in Philadelphia is made up of solid rows, with another thirteen per cent of semi-detached rows. Their symbol on the zoning maps is "C" for semi-detached, "D" for rows with set back, and "D 1" for rows built right up to the front building line (no set back). These rows may be found and identified by the simple process of starting a tour of inspection at the point of contact of housing with business in the oldest centers and then pursuing a course of penetration through the various stratas to the outer edge of the city.

* * *

Preferential Treatment of Industrial Realty*

By WILLIAM E. GAILLARD

A PREFERENTIAL basis should be created for the judicial valuation of industrial real estate for a variety of reasons:

1. The vulnerability of industrial real estate values to acts of the state itself.
2. The failure of this property to receive those benefits ordinarily conferred by government upon the taxpayer in return for taxation.
3. Industrial real estate is not "real estate" in the accepted sense of the term.
4. The fixing of true value of industrial real estate is impossible under any recognized legal principle of valuation.
5. Finally, the advisability of a preferential treatment rests on the broad basis of stimulation of industry.

INDUSTRIAL REALTY NOT "REAL ESTATE"

Industrial structures partake rather of the nature of "fixtures" than of improvements. Like fixtures, some industrial buildings are chattels annexed to the land for a special purpose, to-wit, to serve as an adjunct, support or cover for machinery. In the phraseology of the United States government, they are merely "manufacturing facilities."

Now, fixtures are only regarded as realty when they are permanently devoted to the same general purpose or for one of the particular purposes to which the building housing the fixtures is devoted. Articles annexed merely for the purpose for which a building happens to be used at the time are not regarded as part of the realty (See 26 Corpus Juris, p. 670 and cases collated at note 48). The courts have even gone so far as to say that neither structure nor buildings may be regarded as real property when they are used "for some temporary purpose exten-

nal to the land, and the land is used only as a foundation because some foundation is necessary" (Saye vs. Hill, 100 S. C. 21). In numerous cases entire buildings have been considered by the courts as trade fixtures (See the collection of cases in 26 Corpus Juris, p. 702, under note 99).

There are certain other attributes commonly possessed by real estate which are absent in the case of industrial property. Ordinary real estate can be readily rented for general use; an industrial plant has no such rentability. Real estate generally has a market value which is not too far removed from its forced value at auction. The industrial plant has a value only to a special user. Ordinary real estate is reasonably free from regulation by the state. Industrial real estate is the subject of the most vigorous exercise of the state police power. Every one of these differences goes directly to the question of value and therefore of taxation.

TRUE VALUE IMPOSSIBLE OF ASCERTAINMENT

It is impossible to determine the true value of industrial real estate for the reason that no recognized principle of valuation can be justly applied thereto. It is impossible to apply the principle of market value because industrial plants have no certain market value. Any other principle of valuation, such as cost of reproduction or original cost of construction, would be manifestly unfair since they are merely variations of the principle of "value to the owner."

This principle of value to the owner has never been recognized as properly applicable to valuations for the purpose

*Reprinted from the March, 1936, issue of *Tax Management*.
—Ed.

of taxation. Under the Roman Law for taxation, the value to the owner known as "Utilitas Actoris" was used only in assessing damage for the purpose of compensation, never for taxation purposes. The basic value under the Roman Law for taxation purposes was the ordinary value of the property, its value under all circumstances to any person, known as "Quanti Omnibus Valet." This was known in the Roman Law as "true value." It is the "normal value" of the economists or "the market value under ordinary conditions" of the modern German law. This concept of true value was taken over by the German law and became the "Gemeiner Werth" of the Prussian Code of 1794 (*Allegemeines Landrecht*).

At common law the leading method of valuation of real estate for the purpose of taxation was the earning power or rental value of the property. This principle is obviously inapplicable to industrial real estate owing to the frequent absence of the rentability feature referred to above.

If the true value of industrial real estate cannot be found under any of the established principles of valuation, it is obvious that the value of industrial real estate is created and regulated rather than found and observed for the purpose of taxation. This not merely permits, but compels, the state to consider the broadest questions of public policy and jurisprudence in its evaluation of this unique class of property.

STATE DIMINISHES VALUE BY OWN ACTS

There are a number of reasons in jurisprudence why industrial real estate is entitled to a preferential basis of taxation, but the most impressive of these reasons is the attitude toward industrial real estate of the taxing power itself.

In the last analysis, value of all prop-

erty is profoundly affected by the actions of the sovereign power. Market value itself is only the exchange of legal rights of command over property as sanctioned and limited by government. Our contention is that in the case of industrial real estate, governmental interference is at its maximum and the injurious effect upon the value of this type of property is proportionately the greatest. Here are some instances of complete or practically complete destruction:

Prohibition rendered brewery buildings valueless.

A state passes a law prohibiting manufacture by a certain method to which the particular plant is adapted. Thus in *Walls vs. Hudland Carbon Co.*, 254 U. S. 300, a law was sustained which prohibited the use of natural gas for the manufacture of carbon black, although the effect of this law was to render the plaintiff's plant valueless.

A municipal ordinance may limit the manufacture of a certain product within a certain district to a monopoly, as in the *Slaughterhouse cases*, 16 Wall., 36 U. S. 1873.

Here are some of the other instances of governmental interference which vitally affect the value of industrial real estate without wholly destroying it: labor laws affecting wages and hours; sanitary codes; fire regulations; anti-trust laws; pure food laws; railroad rate changes; change in tariffs; immigration laws reducing the supply of labor; zoning ordinances.

PREFERENTIAL BASIS JUSTIFIED BY "BENEFITS RECEIVED"

The report of the Special Commission appointed to investigate taxation in Massachusetts, 1928, House Report No. 490, at page 23, says that the theoretical basis for the constitutional provision that taxes

shall be proportional upon all property is that the ability of property to pay taxes and the benefits received by property from government are proportional to the value of the property. The Commission further says that the theoretical arguments for classification of property for purposes of taxation are that value is not the sole criterion of benefits derived by property from government and, "that some kinds of property derive less benefit from government than other kinds of property of the same value, and therefore should bear less than a proportionate part, as measured by value, of the total tax burden laid upon property as such."

Now, it is an undeniable fact that the modern industrial plant derives few, if any, of the benefits of government enjoyed by other taxpayers. In many instances it has its own special police; it is located in districts where there is usually no need for regulation of any traffic; it has its own fire protection system; in many cases, its own hospital. It is, as a matter of fact, usually an autonomous community within a community. It derives a minimum of benefits from government, and draws a maximum of regulation. Since regulation is inversely proportionate to value, as has been shown above, and benefit is directly proportionate to value, it is clear that both these factors tend to reduce values of industrial real estate. Since both of these factors are government-made factors, the government should be the first to recognize their importance when fixing the value of this property for the purpose of taxation. This, we deem it plain, is common sense, logic, justice and morality.

Another glaring instance—it is well known that the state superintendents of banking, who are charged with the duty of supervising the investments of saving banks, totalling over \$10,000,000,000,

frown upon or prohibit the investment by savings banks of their funds in mortgages upon industrial real estate. In effect, one organ of the state, its banking department, says to the owner of industrial real estate, "You have no improved real estate so far as we are concerned, you may not borrow money on this property of yours; its security is insufficient for loan purposes." On the other hand, the taxing organ of the state, the assessor, the judge, the legislature, say to this same industrial real estate owner: "We shall tax your property on the same basis as any other property. We are not concerned with your troubles in selling, renting or raising money on your property."

In line with this attitude of the state superintendents of banking, is the attitude of the insurance companies as generally approved by the state superintendents of insurance. It is a matter of common knowledge to owners of factory real estate that such real estate is placed by the insurance companies in a class by itself, and if unoccupied, insurance is in many cases denied to such property. The position of the insurance companies is unofficially stated by them to rest on the proposition that due to the unmarketability of this class of property, the temptation for incendiaryism is very great.

No wonder that there are instances, not only of incendiaryism, but of calculated and deliberate destruction of idle plants for the purpose of avoiding carrying charges, especially inequitable taxation and fire insurance. Many conspicuous instances of such destruction may be cited.

ENCOURAGING SIGNS OF LIBERATING MOVEMENT

A recent survey throws an encouraging light on this question. A questionnaire was submitted to the State Tax Commiss-

sions of the forty-eight states with a request that they state what legislation has been passed to exempt or accord special privileges to industrial real estate in the matter of taxation and what local authorities have been doing in this respect. The results of the survey were remarkable. In an impressively large number of states industrial real estate and certain industries, and especially new plants in certain favored industries, have been exempted from taxation for varying periods by the action of the state legislatures; in a number of other states, local authorities have been specially authorized by law to grant like exemptions; and finally, in a number of states, the practice of granting such exemptions by local authorities has been freely admitted to exist even though under the laws of that particular state such practices are illegal or of doubtful legality. A majority of states, however, still treat industrial real estate on the same basis with other realty and grant no preferences or exemptions. They cannot long continue to do so.

The extensive researches referred to show that those states and communities

which have granted preferences and exemptions to industrial real estate have been doing so not alone in recognition of the right of owners of such real estate in law and morals to such treatment but rather for the purpose of conferring real and practical benefits on such communities. The granting of exemptions and privileges has in many instances been a part of an organized effort to prevent the alarming migration of industry from a given community or to attract new industry to such community.

Agriculture has been said to be the backbone of the nation, and commerce and shipping may be likened to its blood circulation. Industry, however, is its very heart. It is important to remember that over-taxing the heart leads to hardening of the arteries and general decay of the organism. It behooves large and important industrial centers which are actually killing the industrial goose that lays the golden eggs for their citizens forthwith to obtain the advantages of the legally, economically and morally sound principle of preferential treatment of industrial realty.

* * *

Appraisal of Water Front Real Estate

By R. E. THOMPSON, M. A. I.

THE greatest difficulty in appraising water front real estate seems to me to come from its name—"water front." Everything that fronts on or has access to water is usually lumped under this heading. This seems to blur the realization that such a grouping is not a homogeneous one. There are distinct classes of water front just as there are distinct classes of inland property. An appraiser who wouldn't think of lumping all inland property under the simple class "inland" will use the term "water front" as a catch-all for all property on or near the water. If an appraiser can avoid the handicap of this catch-all designation, I believe he has made a big step forward in water front appraising.

There are five fairly distinct classes of water front property, namely: trans-shipment property, warehousing or light industrial property, distribution or bulk-head property, heavy widespread industrial property, and railroad water front terminals. These classes blend together to some extent, but in their pure form are distinctly different, with their values affected by different forces. In order to bring out some of the distinctions between the various types of property I will discuss their general characteristics, the forces that affect their values, and how the values of the various types have moved over a period of years.

TRANS-SHIPMENT PROPERTY

A trans-shipment property, as I use the term, is one devoted to the interchange of shipments between ship and land or lighter transportation in *common carrier*, or general transportation, service. It is a

berthing point for large ships. Warehouses and light manufacturing space are frequently operated in conjunction with trans-shipment wharves, as at the Bush and New York Dock Co. terminals; but for clarity's sake, I apply the term "trans-shipment" only to that space used for the movement of goods between the two types of transportation. Warehousing and manufacturing space is for storing or processing goods. The usable unit is area of floor space; trans-shipment space is for the movement of goods between ship and land or lighter transportation and the usable unit is length of berthing space coupled with enough transit space to work (not store or process) the cargo. A unit of trans-shipment space consists of a berth for ships together with water space (generally in a slip) for warping ships to the berth and for working lighters alongside the ship when it is berthed, transit space in the transit shed or headhouse, and driveway and tailboard space. This is the revenue producing unit as far as trans-shipment is concerned.

The value of trans-shipment property is influenced by the volume of shipping and the relative prosperity or poverty of that industry. In our area the big boom in shipping and the value of trans-shipment property came in 1918 to 1920, before the general real-estate boom. 1920 was the year of peak commerce and peak rents for trans-shipment property; such property had started on the down grade when the general real-estate boom was just getting under way. This type of property suffered its second blow in the general depression with further large recession in foreign commerce and pier rents. The outlook

right now for trans-shipment property is pretty discouraging.

Warehousing and light manufacturing property, which is frequently found in conjunction with trans-shipment wharves, has been affected by a different set of forces and has followed a different course. Values of this type of property rose with the war boom but did not drop thereafter like trans-shipment property. Warehousing and light manufacturing space on water front is more or less of a standard type property suitable for many activities. It benefitted by the general prosperity of the 1920's, in contradistinction to the specialized trans-shipment property. It is in direct competition with similar inland space and is affected by the same forces.

BULKHEAD PROPERTY

Distribution, or bulkhead, type of water front is rather hard to designate with a properly descriptive label. Personally, I prefer the designation "bulkhead type." The trouble with this name is that what I refer to as bulkhead type property may actually have a pier instead of a bulkhead wharf.

By bulkhead type properties I mean those small properties accommodating light draft vessels such as barges and lighters, and which are used as coal yards, material yards, lumber yards, bulk oil stations, etc., where heavy goods are brought in by water for inland distribution by truck. Rail connection usually is not of much importance with this type of property. The important thing is to be as close as possible to the center of distribution of the type of commodity handled.

Building construction has been a big influence on the values of this type of property, and as building construction is to a certain extent a localized phenomenon,—that is, one part of a city may be building

up while another is not,—the values of two widely separated properties of this type may be moving in opposite direction at the same time.

As a general rule in New York Harbor, however, as far as I have been able to learn, this type of property did not benefit much if any from the war time boom. Building construction was dead at that time. In those locations I have studied, the highest prices for this type of property were reached in the building boom of the middle 1920's, and it has suffered with the collapse in building. I believe, however, there are locations where fairly good prices can still be obtained for this kind of property.

HEAVY WIDE-SPREADING INDUSTRIAL PROPERTY

Heavy widespread industrial property showed a good increase in values with the war and post-war booms. Heavy wide-spreading industries, as I classify them, occupy comparatively large areas of land with low structures and with open air space, and generally deal in raw materials and finished products of comparatively low specific values.

As a general rule, appraisal of water front heavy industrial locations is not much different from appraisal of other heavy industrial locations. Given satisfactory access, terrain, surrounding environment, location, labor, raw materials, market, financing facilities, etc., the principal requirements of a water front heavy industrial location are the same generally as for other industrial locations; namely, space, or ground area, coupled with proper transportation facilities.

In the case of a water front location, the water affords a transportation facility, much the same as a railroad spur or highway. The amount of berthing space

needed is dependent on the shipping of the industry. Berthing space in excess of the industry's needs is more or less waste and adds little to the value of the location, being similar in that respect to excessive amounts of railroad spur trackage.

In order to study the trend of values of wide-spreading heavy industrial property it is necessary to examine the prices paid for original locations. Prices paid in expansion purchases by existing industries are an unsatisfactory criterion, as an already located industry does not have much choice and cannot shop around. For original locations of wide-spreading heavy industries there appears to be an upper limit of price beyond which such industries will not go no matter how desirable the property offered. In other words, beyond a certain limit, increased desirability, such as a close in location, will not increase the price. This applies particularly to industries such as use areas in excess of 50 acres; anything less than that I would hardly class as a wide-spreading heavy industry.

Values of widespread heavy industrial properties are not influenced by as specialized forces as trans-shipment property. Nor is it as standardized and generally marketable a type of property as light manufacturing space; the potential users are too few. However, the potential uses are sufficiently diversified to be influenced by general industrial prosperity (up to the maximum price limit) and by general industrial depression.

This discussion of the principal types of water front properties and the forces that influence their values has been for the purpose of bringing out the distinctions between the various types of water front property. It is to emphasize the fact that the appraiser should not say to himself, "This is water front property." He should

ask himself, "What kind of water front property is this and for what can it be used?"

THE APPROACH

Most water front properties are not "income" or "investment" properties and hence cannot be appraised by the income method. Major reliance must be placed on the comparison method;—that is, comparison of the property to be appraised with the prices paid for comparable and competitive properties.

However, appraisal of water front properties by comparison with sale prices of other water front properties is somewhat more complicated than is generally the case in comparison appraisals. Water front property does not have the free general market enjoyed by retail, residential, etc., property, and there is generally greater dis-similarity between the various parcels of real estate along a harbor than between parcels along a retail or residential street. The characteristics of the individual parcels of water front restrict their possible uses to particular types of use and not general "water front" uses, and the needs of the users of water front properties restrict their possible locations to particular types, and even particular locations, of water front, and not to "water front generally."

In some cases, such as expansion purchases, the price paid may not be the result of free play of competitive factors in an open market, and may indicate only the value of the particular property sold to the particular purchaser, and not have any bearing on the value of any other plot. The special circumstances involved in each sale of water frontage are so complex, the individual characteristics of the properties sold and the properties under appraisal are so varied, market conditions as of the dates of the sales and the date of

appraisal may be so different, etc., that the appraiser must have detailed knowledge of his data and make careful, logical interpretations thereof in his appraisals. He cannot make a good appraisal by a cursory comparison of his sales and the property under appraisal.

No hard and fast rules can be laid down as to *the* one proper method usable in all water front appraisal problems. I firmly believe in several approaches or methods where the circumstances permit or the data warrant. As an illustration of this, assume a plot susceptible of several uses. Appraise it for each of the possible uses, finally adopting the valuation which seems most logical. Another illustration: sometimes in appraising large or deep tracts the most accurate results will be obtained by applying one unit value to the water end or to the land under water, and another to the land end. This will largely depend on the nature of the data.

If certain of the sales cover property comparable to the water end of the plot under appraisal and certain other sales cover property comparable to the land end, with no sales similar to the property as a whole, the simplest and most accurate approach may be to relate the sales prices to the comparable parts of the plot under appraisal, and not attempt to apply, say, the prices in pier properties 1,000 feet deep to a whole plot 2,000 feet deep in which 1,000 feet is suitable for piers and 1,000 feet is solid upland which could not be used for piers without taking out the good upland.

However, if the sales cover properties similar to the property under appraisal as a whole,—in this instance, properties approximately 2,000 feet deep, half under water and half upland,—application of separate unit values to the front and rear may be a fallacious refinement not war-

ranted by the data. In either case it is well to check the result with the alternate method.

The goal of an appraisal investigation is the determination of the correct value (or values). Methods and rules, while very useful, are incidental. It is only in the effort to determine correct values that one must be consistent; consistency of method is a fault if it does not lead to correct valuations. It is not necessary that the same method be followed in all valuations; the type of data may warrant one method in one case and a different method in another case. The route to be followed is whichever one will lead to the truth.

PRINCIPAL FACTORS

So much for a general discussion of the problem. I will now try to enumerate some of the principal factors that influence the values of water front properties.

1. *Condition of the market (supply and demand), and business conditions in the various types of industries using water front.* It is axiomatic that the condition of the market, and business conditions in the industries that are actual or potential users of the type of property being appraised, have an important bearing on real-estate values. The possible selling price of a property is materially affected by the condition of the market as of the date of appraisal, such as the number of competing properties offered for sale or in position to be sold and comparative demand for such properties, and by the comparative prosperity or poverty of the industries which are possible purchasers. Vice versa, the warranted offering price for a property is also materially affected by these same conditions. Possible selling prices and warranted offering prices strongly influence market values.

These factors are important in all ap-

praisals; they are specially so in water front appraisals as water front properties are slow moving and, because of the scarcity of sales, the tendency may be to use comparatively old prices to indicate values as of considerably later dates. As water front property frequently is not of a type for which the real estate income can be ascertained, it is difficult to determine earning power as a guide to values and to trends of values. For these reasons it is important to know the market and business conditions as of the dates of the sales and appraisal in order to estimate the validity of former sales as indices of values as of appraisal date.

2. *The type of actual and potential utility.* The first question to ask yourself, when appraising water front realty, is, "For what can the property be used?" The answer to this question may be a study in itself. If primary support for the estimated value is sales, it is essential that the appraiser thoroughly understand the differences in actual and possible utilities between the various sales, and between the various sales and the property being appraised.

Substantial dissimilarity in actual and possible utility may invalidate some of the data for lack of comparability. As an example of this, consider two properties side by side and, say, 1,500 feet deep from the pierhead line to the rear line, one property filled in solid to within 200 feet of the pierhead line, and the other undeveloped land under shallow water. Further assume that shipping, for which the undeveloped property might be developed, is booming and values for that use are high, while industry, for which the developed property is suited, is only moderately prosperous with moderate values. The undeveloped property under such circumstances might have a higher value than the

developed property, for the developed property could not be dredged out and made usable for the more valuable use without prohibitive expense.

3. *Size, shape, topography, etc.* These have an important bearing on possible uses and efficiency of possible uses, and so affect values. Tracts with too small an area for the logical development of the neighborhood may render impossible the best utilization, and hence small tracts may be worth less per unit than a larger area permitting more efficient utilization.

On the other hand, too large an area may reduce the unit value because of waste space or lack of economy in utilization of the space. The allowable length of piers affects both the type and efficiency of use. Too long or too short possible pier lengths deviating from the most efficient lengths would tend to lower unit values. The actual topography or terrain of a tract is an obvious factor affecting water frontage values just as it affects values of other types of property, and needs no special comment.

4. *Access from water.* This is a relatively unimportant factor in the total value of a water front property except as a depreciating factor where access is poor because of crooked channel, rock banks, shoals, reefs, islands, spits, bridges, adjacent piers, currents, winds, waves, etc.

Any of the foregoing, if present, may have a considerably depreciating effect on value. A pier or bridge may lower value of adjoining property by interference with access without affecting value of other nearby properties. Occasionally rock banks, shoals, or islands interfere with access.

As a general rule, currents, winds, and waves will not be of much consequence in normally protected harbors. Where the current is strong, the difficulty of berth-

ing ships can be largely overcome by use of marginal wharves or of piers built at an oblique angle to the current. Wind and wave action is not so much a danger to navigation as to ships tied up, and to lighters serving such vessels. Strong currents also present a hazard to lighters.

In the case of undeveloped properties which lack channel, the value will be affected by cost of providing a channel. However, water front developments usually will be made where hinterland development and access from shore justify, in spite of poor access from water. As Roy S. MacElwee says in his book "Ports and Terminal Facilities," "A ship will go anywhere it can float to get paying cargo."

5. *Access from land, covering road and rail facilities, distance from and access to points of origin and destination of shipments, and to labor markets.* The relative desirability of various properties is considerably affected by the land access. A large proportion of the business often moves inland from the terminal, and from inland points to terminal, by truck. Good access and short haul to and from shore points of origin and destination is a very material factor. Grades encountered, and condition of road surfaces, are to be considered as well as distance. For some types of utility rail connection is essential.

6. *The hinterland.* The nature and extent of the hinterland served by the water front, and access and distance thereto, are of great importance in the relative values of properties of similar possible utilities and water access. The hinterland covers the nature and extent of the main and secondary business centers, labor markets, sources of raw and finished products, etc., which might be served by, or used in conjunction with, the water front.

Fine water front with an unimportant hinterland, or with poor access to important centers, might stand idle while property with poorer natural advantages but close to important business and industrial centers might be quite active. The back land adjoining generally is not as important as the hinterland served.

The size, distance to, and access to the most important sources of business are what count. Different types of water front activity are dependent on different types of hinterland. For instance, a building material yard would find the center of building activity more important to it than the financial district. Passenger liner piers must be conveniently accessible to passengers; freight piers conveniently accessible to the trucks of the shippers.

7. *Type of Wharves.* The wharf at a property is a structural item and the cost, or cost of reproduction, is a guide to value of these items to the extent that it is in other types of appraisals.

The same items of deterioration, obsolescence, suitability for general purposes and for the purposes in mind, etc., are to be considered in using cost or cost of reproduction of wharves as guides to value as they are to be considered in using the same kind of figures in other types of appraisals, the land, bulkheads, and wharves are to be considered as a unit and not as separate items to be added together to find the total value.

The type of wharves may materially affect the value of a property, for (as in other types of property improved with structures), once the wharf or wharves are built, the type of development is more or less rigidly fixed and is not easily modified to meet changing conditions. For instance, a property developed with short narrow piers and narrow slips suitable only for smaller ships cannot be adapted

easily to accommodate larger ships, even though the property, if vacant, would be a good location for a big ship development. Such a development would be appraised as a small ship property; or, if appraised as potential big ship property, little, if anything would be allowed for the wharves, and the cost of clearing the site for a more modern development would be considered. Such or similar cases where the development is more or less rigid, controlling the possible utilities and value are frequently encountered.

8. *Depth of water.* Varying depths of water in a channel or along a wharf, to the extent that they are less than the maximum depth needed for the largest ships, will control the maximum size of ship that can be accommodated at a given location and hence affect the type of utility and value.

If shallow water at the wharf can be remedied by dredging, an estimate of the depreciating effect of such shallow water may be based on an estimate of cost of deepening by dredging. A shallow channel is less easily remedied.

Sales prices of properties with one channel depth may be poor guides to values of properties with different channel depths. Water depth in excess of that needed for the proper utilization of the property generally will have little effect on value except as to future potentialities.

9. *Free lighterage limits and lighterage rates.* Whether or not a property is within the free lighterage limits, and lighterage rates, will affect the cost of water transportation to and from water front locations, and hence affect value. The extent of the effect on a particular property for a particular use will depend on the volume of actual and anticipated lighterage traffic.

10. *Title to the property.* Titles to

water front property are more subject to restrictions and defects than is usually the case with other real estate, and the extent and nature of the title may have an important bearing on the value. The title to submerged land between original shore line and the Federal pierhead line lies in the State until the State divests itself in whole or in part of such title. Nowadays such divesting is usually done by what is called a grant or riparian lease.

Grants may contain conditional clauses such as that certain improvements must be made by a certain date, and the individual's title to the granted property may be contingent upon the proper fulfillment of the conditions. Grants may restrict the property to certain uses only. Sometimes the limits of the grant may extend to the State pierhead line, which may differ from the U. S. pierhead line (a state cannot give a valid grant to land under water offshore of the U. S. pierhead line), sometimes the lines to which the grant runs may not coincide with either the pierhead or bulkhead line in effect as of the date of appraisal.

Often the title extends to the shore line or limits of actual fill with no title to, and only common law rights in the land under water in front of same, even though such land under water be inshore of the official bulkhead and pierhead lines. In such cases the land owner has by common law certain rights of user in the land under water without a grant, providing the soil under water is not disturbed by filling or dredging, which rights may be of material value though less than the value of the rights if the land under water were held by grant.

Title may cover only such land under water as is occupied by a pier with no right to extend the pier or modify its size and shape, with, perhaps, ownership ceas-

ing if the pier be removed. In such cases the rights to pass over the adjoining slips may be of considerable value even though no record title is held for the land in the slips. Some New York State decisions have upheld the rights of a pier owner to traverse the water in adjoining slips owned by others.

Recent grants in both New Jersey and New York are pretty clear cut; but older grants, especially in New York, are quite complex.

11. *The needs of adjoining owners, and possibilities of sale to an adjoining expanding industry.* These factors may have a considerable effect on value, and are especially worthy of consideration in advising an owner concerning a sale to the adjoining expanding industry. Sometimes a considerable proportion of water front transactions are purchases by expanding industries. In such cases the price paid may apply only to the property purchased and not be an indication of value of any other property. The appraiser must fully understand such circumstances when using such sales as evidence of value of other properties.

12. *Silt deposits.* The relative amounts of silt deposited in slips or channels at various properties affect the comparative periodical dredging costs and of course affect value. The amount of silt deposited may vary with varying locations and types of development. Marginal wharves usually will not silt as badly as slip and pier properties; also the Federal Government may maintain the water depth at or close to marginal wharf properties where wharf

line and channel line approximately coincide.

Cost of dredging out silt deposits may be so great as to have considerable affect on values. I know of at least one location where slips were abandoned in favor of a poorly arranged and poorly balanced marginal wharf at the ends of the old piers, simply because of the excessive cost of dredging out the continuous silt deposits in the slips.

13. *Marine Borers.* Some tidal waters are infested with marine borers which, sometimes in very short time, destroy or weaken to an unusable point wooden piles and timbers in piers and bulkheads. Fortunately, the close in waters of New York Harbor are practically free of such pests.

If borers are present this fact naturally tends to depreciate water front real estate values, either because of the continual destruction of under water wood-work or because of the extra cost of protecting against such damage.

The most frequently encountered types of borers are the *teredo* worm, which bores long tunnels in the wood, producing a sponge-like appearance, and the *limnoria*, which chews the wood away.

14. *Polluted waters.* Pollution may be in the form of sewage, garbage, and other refuse offensive to eye and nose; in the form of oil which forms a dirty, smelly, sticky coating over everything with which it comes in contact; or in destructive acid and other chemical products of industrial operations in the harbor. Such conditions may be harbor-wide or confined to localized points in the harbor.

* * *

Gross Income As an Index of Value

By CUTHBERT E. REEVES, M. A. I.

IN the course of passing upon approximately 1,900,000 applications for loans from the Home Owners' Loan Corporation, 4,600,000 appraisals have been made by staff and fee men, and by a wise provision in our procedure the Gross Monthly Rental has been one of the criteria depended upon to check the reports of the more than 8,000 appraisers whose names and records of performance are filed in our Personnel Department.

Incidentally, the far-reaching magnitude of this unprecedented mortgage-financing operation may be better appreciated by noting that out of the three billion dollars loaned throughout this country, nearly ten million has been paid in fees to independent appraisers, nearly eighty million has been used to repair and improve dwellings, and about 225 million has been gratefully received by municipalities for delinquent real property taxes.

As may easily be imagined, the conception of what was a fair monthly rental and the valuation that might be predicated thereon differed very widely in the minds of those 8,000 men. In some localities, we met with great resistance in our efforts to establish the proper use of rental as an index to value. Instead of its serving as a conservative factor, in some districts it was perverted to produce the highest figure of the three tests of valuation asked for, and in some cases was, I fear, deliberately used to offset the depressing influence of Market Value.

From this experience, I believe that there is need of discussion upon the significance of Gross Income, *per se*, and therefore will not in this paper explore very far the vast field of means whereby

gross revenue is reduced to net income. I shall first discuss the use of Gross Income to determine directly the value of ordinary residences other than apartment buildings. In a past issue of the *Journal* I pointed out the vagaries arising from the use of capitalization in appraising this type of property. My experience since then has, however, demonstrated that this test of value is not to be disregarded. It offers a practical and perhaps the most dependable criterion of that form of depreciation commonly termed Obsolescence, but really comprising all functional depreciation other than that due to physical changes in the subject property. In the oft-cited case of a mansion built in a slum, the logical test of value lies in the query as to what price it will bring, and failing a purchaser, which is very likely to be the case, what rental can be secured. Similarly, in the less exaggerated example of a residence which has not been modernized in conformity with its neighbors, the economic effect of obsolescent plumbing fixtures, heating, and other appurtenances is best gauged by the lower rental that the owner of such property must accept.

TREATMENT OF RENTAL FROM DWELLINGS

It is now common practice throughout this country to apply a multiplier to the gross monthly rental of dwellings, as one measure of value. Too many appraisers are accustomed to using 100 as that factor, regardless of the type or class of property in question. It can quickly be demonstrated that only in a limited field of properties and under very favorable circumstances can so high a multiplier be justified. Analysis strictly from the investor's

point of view will show that most single-family dwellings warrant a multiplier of not more than 70, and that three or four-family properties seldom justify a factor of more than 60. Table I demonstrates each of the foregoing generalizations. In this tabulation, hypothetical investment, rental and deductions from revenue have been set up for a typical middle-class single-family dwelling and also for a typical middle-class four-family property. It will be seen (line 19) that the net rental accruing to the single-family, capitalized at 6%, and that of the four-family at a reasonably higher rate, 8%, produce valuations of about 70% of the assumed costs. Obviously, that is the measure of value to an investor. It will be noted (line 20) that the multipliers commonly used produce values approximating the assumed costs and exceeding the true capitalization by from 40 to 50% (line 21). That excess may be justified by the general appreciation of home amenities as expressed in sale prices of single dwellings, but no such reasons exist for the acquisition of multi-family dwellings and the market values thereof should conform to the index given by true capitalization.

Mr. Figures of the Prudential Life Insurance Company, has related, in a recent address, his company's experience in disposing of real estate acquired through delinquent loans. One example he cited almost duplicates the illustration set forth by me in Table I. His company decided that it was expedient to spend about \$7,500 in modernizing a derelict four-family property that was already charged with about \$5,500. After this was done the four apartments rented readily and brought in \$165 monthly, unheated. The \$13,000 investment thus appears to be 79 times the gross monthly rental, instead of the 61, in Table I. If, however, we

apply at least a 10% discount for vacancy allowance, it will be seen that 60 is a much safer factor for capitalization than the 90 or 100 commonly used.

Mr. Figures told also of a twelve-family building in very bad condition, upon which his company spent about \$8,000 in remodeling. It then produced a net yield of \$1,757 out of the \$4,380 annual gross rental secured. This, at his stated capitalization rate of 7%, indicates a total investment of \$25,000. That is 68½ times the monthly gross rent, but also is without vacancy allowance. With such an adjustment his examples corroborate closely my hypothetical cases.

Granting that in many cases true capitalization falls below market values, rentals can still be made a criterion of value. In a given community and as of a prescribed cycle of time, it will be found that rentals consistently bear a certain approximate ratio to the market value of the properties rented. That ratio may vary from one class of property to another, but within geographical and economic limits, factors can be developed which will be useful as control checks and for cursory appraisals.

SIGNIFICANCE OF INCOME

Next, we consider the significance of Gross Rental in the appraisal of those properties which are wholly or predominantly of the income-producing type. J. Kingsley Powell, Conservator of real estate for the New Jersey State Department of Banking & Insurance, stated in a recent address that he classifies all residential properties other than single-family dwellings as "income-producing." Various rules of thumb are in vogue for quick approximations of value. As commonly used, they are too comprehensively applied and the appropriate variation be-

cause of the ratio of building value to land value and for differing rates of return and of property taxation is seldom made.

Careful observation of Tables II and III will show that judicious application of the commonly used rule that "the value is so many times the annual gross rental" can be made to produce consistently accurate results. In these tables the simplest applications of such rules have been assumed. In each of them the gross rental is that which the owner receives or has available as net before taxes and depreciation. Operating expenses, including repairs, are presumed to have been otherwise provided for.

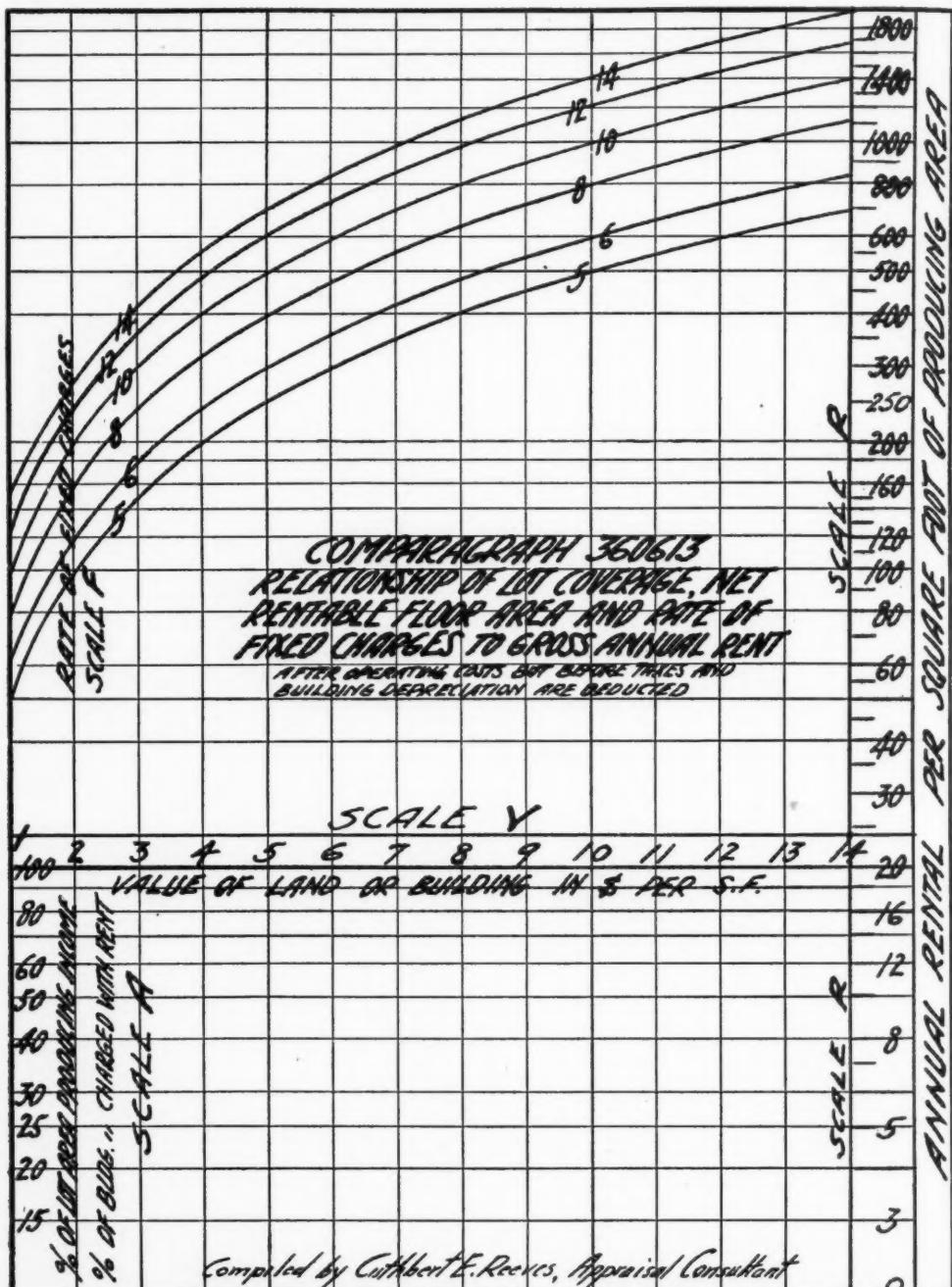
In both these tables, definite combinations of land value and building investment appropriate to that land are assumed, and the rentals stated which are requisite to yield a net return of 5, 6, 8, or 10% after taxes and building amortization have been deducted therefrom. Opposite each such rental there is shown the multiplier which, applied to that rental, produces the given land value. Table II is based upon the land being utilized over only one-half its area, whereas Table III depicts the same situations when the full area of the lot is covered by the building.

They have been compiled especially to show by direct comparison how the permissible multiplier of Gross Rental increases as the ratio of unit land value to unit building value increases—no matter what rate of capitalization is used; also, to demonstrate graphically the obvious truism that the rental which warrants a certain value at one rate of return justifies only approximately half that value at twice that rate.

For this purpose, the tables have been arranged with progressively greater land values coupled with building values appro-

priate thereto, for the general run of one and two story structures. To show approximately the effect of substituting other building values, the last line in each panel repeats the preceding land value in conjunction with a lesser building value. From these variations other modifications can be interpolated.

Note that the foot-front rental required to yield a given rate of return upon the values assumed may be multiplied to produce the land value by factors that indicate as follows: *first*, that regardless of what the required total rental may be, for a given rate of return, the same approximate multiplier may be used in all combinations of unit land and building value having a common ratio: e. g., in the column for each rate it will be seen that the same approximate multiplier appears opposite the 1 to 1 ratios, lines 6 and 11. *Second*, at any given rate, the multiplier increases as the unit value of the land exceeds the unit value of the building thereon. The increasing preponderance of land value results in lower total fixed charges, proportionately, as the building amortization charge remains constant. *Third*, a lower total rental from a building which covers only part of a given parcel may warrant a greater multiplier than a higher rent would justify for the same approximate unit values when the building covers the entire lot area. For example, a \$2.50 building occupying only half the depth of a lot valued at 50 cents per square foot need produce only \$15 per foot-front for fixed charges, including 5% return (Table II). If the building covers the full depth of the lot, that sum must be \$26 (Table III), an increase of 72%, probably far more than can be secured. Conversely, a \$10 half-depth building on land worth \$50 per square foot must produce \$395 per foot-front, but that need



Compiled by Cuttbert E. Reeves, Appraisal Consultant

Comparagraph 360613

INSTRUCTIONS FOR USE OF COMPARAGRAPH 360613

Adjustment for various percentages of land occupancy and percentages of net rentable floor area can be made mechanically by using Scale A.

1. Determine the rate required for taxes and interest and, in the case of buildings for amortization also.
2. From the horizontal line through the % of lot area producing income (Scale A) measure on the vertical line through the given unit value of land (Scale V) to the curve for adopted rate of fixed charges (Scale F).
3. Lay out on Scale R the distance so measured, and read on Scale R the annual rental per square foot of producing area requisite to supply the charges against the land.
4. From the horizontal line through the % of building area charged with rent (Scale A) measure on the vertical line through the given unit value of the building (Scale V) to the curve for adopted rate of fixed charges (Scale F).
5. Lay out on Scale R the distance so measured, and read on Scale R the annual rental per square foot of gross building area requisite to supply the charges against the building.
6. If the unit charge sought is to be in terms of the NET rentable floor area, substitute in (2) and (4) a factor (on Scale A) found by multiplying the % of let area occupied by the building by the % of net rentable floor area, and substitute in (4) the % of net rentable floor area (Scale A).
7. Add the two amounts found in (3) and (5) to determine the annual rental per square foot of gross building area requisite to supply the charges against land and building.

EXAMPLE

Assume a \$10 building occupying 80% of a lot valued at \$5 per sq. ft.; assume that taxes and interest upon the land are 8% and that amortization increases this charge against the building to 10%. Find the gross rental requisite, per square foot of gross building area, and also per square foot of net rentable floor area.

2E $\$5 \times .08 = \$.40$, and $\times 80\%$ inverted = $\$.50$; the distance measured on
3E line 5, Scale V, from 80 Scale A, to curve 8 Scale F = 50 on Scale R.

4E $\$10 \times .10 = \1.00 : the distance measured on line 10 Scale V, from 100 on
5E Scale A (% gross building area), to curve 10 Scale F = 100 on Scale R.

6E Assume that Net rentable floor area is 75% of building area: then the \$.50 in
(2E) $\times 75\%$ inverted = $\$.67$: the distance measured on line 5 Scale V, from 60
Scale A ($.80 \times .75$) to curve 8 Scale F = 67 on Scale R. The \$1.00 in (4E) \times
75% inverted = $\$1.33$: the distance measured on line 10 Scale V, from 75 Scale A
($1.00 \times .75$), to curve 10 Scale F = 133 on Scale R.

7E In terms of gross building area, the combined charges = $\$1.50$
In terms of net rentable floor area, the combined charges = $\$2.00$

TABLE I

Demonstration of the Relationship of the Gross Rental of Residential Properties to Their Value

Typical Middle-Class Single-Family Dwelling			Typical Middle-Class Four-Family Dwelling		
1 Cost of land.....	\$1000	.....	1½ times.....	\$ 1500	.....
2 Cost of building.....	4000	.....	3 times.....	12000	.....
3 INVESTMENT, total.....		\$5000			\$13500
4 RENTAL—12 months at.....	50	600	12 months at.....	160	1920
5 DEDUCTIONS					
Taxes .03 x 5000 x .80.....	120	.....	.03 x 13500 x .80.....	324	.....
6 Water rent 12 x 1.50.....	18	.....	4 x 12 x 1.00.....	48	.....
Insurance .003 x 4000.....	12	.....	.003 x 12000.....	36	.....
7 Repairs, painting 150/3.....	50	.....	250/3.....	83	.....
Redecorating.....	20	.....	4 x 20.....	80	.....
8 Miscellaneous.....	50	.....	4 x 50.....	200	.....
	270	.....		771	.....
9 Loss of rent—10%.....	60	.....	10%.....	192	.....
10 Subtotal, lines 6 to 9.....	330	.....		963	.....
11 Amortization .015 x 4000.....	60	.....	.015 x 12000.....	180	.....
12 Total deductions.....		390			1143
13 NET RENTAL.....		210			777
14 Rate at which net rental in (13) may be capitalized.....		.06	Greater hazard than in single family.....		.08
15 CAPITALIZED VALUE.....		3500	(13) divided by (14).....		9700
16 Multiplier of gross monthly rent (4) which will produce capitalized value in (15)		70			61
17 Multiplier commonly used, recognizing amenities of home, other than investment.....		100	Multiplier commonly used although amenities are negligible and commercial aspect dominant		90
18 VALUATION produced by use of multiplier in (17).....		5000			14400
19 True capitalization is less than investment.....		70%	Ratio of (15) to (3).....		72%
20 Common assumption approximately equals investment.....		100%	Ratio of (18) to (3).....		107%
21 Common assumption greatly exceeds true capitalization.....		143%	Ratio of (18) to (15).....		148%

TABLE II
Determination of Unit Land Value

Foot-front values justified by gross rentals for a business property occupied to one-half depth by 1-story and basement building appropriate in cost to the value of the site. Taxes on land and building at 2% of full value, and amortization of building at 2% have been deducted, but no operating expenses.

Assuming Building Cost per S. F. as Below and Lot Area Only 50% Occupied	The Rentals Below Produce the Stated Land Values, if the Net Rental, After Taxes and Amortization, is Capitalized at								Land Value 100 Ft. Deep \$ per F. F.	
	5%		6%		8%		10%			
	Gross Annual Rental in Dollars per Foot-Front and the Multiplier Which Applied to Same Produces Land Value Stated									
\$	M	\$	M	\$	M	\$	M	\$	M	
2.50	15	3.3	17	2.9	20	2.5	24	2.1	50	
3.00	21	4.8	23	4.3	28	3.6	33	3.0	100	
3.25	25	6.0	28	5.4	34	4.4	41	3.7	150	
3.50	30	6.7	34	5.9	41	4.9	48	4.2	200	
3.75	34	7.4	39	6.4	47	5.3	56	4.5	250	
2.50	29	8.6	33	7.6	40	6.2	48	5.2	250	
4.00	39	7.7	44	6.8	54	5.6	64	4.7	300	
4.25	44	8.0	49	7.1	60	5.8	72	4.9	350	
4.50	48	8.3	55	7.3	67	6.0	80	5.0	400	
4.75	53	8.5	60	7.5	73	6.2	86	5.2	450	
5.00	58	8.6	65	7.7	80	6.3	95	5.3	500	
2.50	46	10.8	53	9.4	65	7.7	78	6.4	500	
5.50	67	9.0	76	7.9	93	6.5	110	5.5	600	
6.00	76	9.2	86	8.1	106	6.6	126	5.6	700	
6.50	85	9.4	96	8.3	119	6.7	142	5.6	800	
7.00	95	9.5	108	8.4	132	6.8	157	5.7	900	
7.50	104	9.6	118	8.5	145	6.9	171	5.8	1000	
4.00	88	11.4	100	10.0	124	8.1	148	6.8	1000	
8.00	120	10.0	136	8.8	168	7.1	200	6.0	1200	
8.50	143	10.5	163	9.2	201	7.4	240	6.2	1500	
9.00	180	11.1	205	9.7	254	7.9	304	6.6	2000	
9.50	253	11.8	288	10.4	357	8.4	428	7.0	3000	
10.00	395	12.6	450	11.1	560	8.9	670	7.5	5000	
5.00	373	13.4	425	11.8	530	9.4	635	7.9	5000	

TABLE III
Determination of Unit Land Value

Foot-front values justified by gross rentals for a business property occupied to full depth by 1-story and basement building appropriate in cost to the value of the site. Taxes on land and building at 2% of full value, and amortization of building at 2% have been deducted, but no operating expenses.

Assuming Building Cost per S. F. as Below and Lot Area Fully Occupied	The Rentals Below Produce the Stated Land Values, if the Net Rental, After Taxes and Amortization, is Capitalized at								Land Value 100 Ft. Deep \$ per F. F.	
	5%		6%		8%		10%			
	Gross Annual Rental in Dollars per Foot-Front and the Multiplier Which Applied to Same Produces Stated Land Value									
\$	M	\$	M	\$	M	\$	M			
2.50	26	1.9	29	1.7	35	1.4	41	1.2	50	
3.00	34	2.9	38	2.6	46	2.2	54	1.9	100	
3.25	40	3.8	45	3.3	54	2.8	63	2.4	150	
3.50	46	4.4	51	3.9	62	3.2	73	2.7	200	
3.75	51	4.9	58	4.3	70	3.6	82	3.1	250	
2.50	40	6.2	45	5.6	55	4.6	65	3.8	250	
4.00	57	5.4	64	4.7	78	3.8	92	3.3	300	
4.25	62	5.6	70	5.0	86	4.1	102	3.4	350	
4.50	69	5.8	77	5.2	94	4.3	111	3.6	400	
4.75	74	6.1	84	5.4	102	4.4	120	3.7	450	
5.00	80	6.2	90	5.5	110	4.5	130	3.8	500	
2.50	58	8.6	65	7.7	80	6.3	95	5.3	500	
5.50	92	6.5	103	5.8	126	4.8	149	4.0	600	
6.00	103	6.8	116	6.0	142	4.9	168	4.2	700	
6.50	115	7.0	129	6.2	158	5.1	187	4.3	800	
7.00	126	7.1	142	6.3	174	5.2	206	4.4	900	
7.50	138	7.2	155	6.4	190	5.3	225	4.4	1000	
4.00	106	9.4	120	8.3	148	6.7	176	5.7	1000	
8.00	156	7.7	176	6.8	216	5.5	256	4.7	1200	
8.50	182	8.2	205	7.3	252	5.9	298	5.0	1500	
9.00	221	9.0	250	8.0	308	6.5	366	5.5	2000	
9.50	295	10.1	335	8.9	414	7.2	493	6.1	3000	
10.00	440	11.3	500	10.0	620	8.1	740	6.8	5000	
5.00	395	12.6	450	11.1	560	8.9	670	7.5	5000	

increase only to \$440, if the building is extended to full lot depth,—that 11% increase in rental can probably be easily secured and so it appears that the logical development in this case is full lot coverage.

From these tables it will be seen that, using 6% as the desired net yield, the required foot-front rental will be roughly from one-fourth of the land value of the lower-class properties to one-ninth where the land value is well above the thousand-dollar level. These factors apply to fully-occupied sites, and the rental required from those in which the building occupies only one-half of the lot may be estimated as from one-fifth of the low-valued land to one-tenth of the high-valued.

These tables have been made up solely to show the use of multipliers, but by the use of other tables the appraiser can greatly expedite his solution of most of the capitalization problems wherein the gross net income is given; that is, the amount left after operating expenses, and available to pay fixed charges. Such tables can be made to lead directly to the residual land value (fee interest) or to residual building value (leasehold).

Even in the case of office buildings and similar extensive and costly properties, Gross Income, without specification as to operating expenses, can be quite significant to one who specializes in those types of properties and knows by experience that, with typical conditions and manage-

ment, definite conclusions may be drawn as to the probable net income and consequent valuation predicated thereon.

The chart entitled Comparagraph 360613 will be found very useful, because it covers a great many combinations of land and building values, rates of fixed charges and varying percentages of income-producing occupancy. The range of unit values in Scale V may be adapted to cover any units other than those shown; multiply or divide the result indicated in Scale R by the same factor applied to relate the given unit value to that used in Scale V. The appraiser may thus readily test *any* assumption he may contemplate, either as to rental or as to valuation, without having to calculate each of the numerous variations he may have to assume. Its novelty lies in the use made of the logarithmic principle in platting Scale A, whereby adjustment is made mechanically for whatever conditions as to lot occupancy or net rentable floor area may be found or assumed.

It is not as formidable as at first may appear, and can be understood and used by anyone who will read the accompanying instructions and follow the example set forth therein.

If this paper has indicated some of the advantages and pitfalls inherent in the use of Gross Rental as a valuation factor, and has, moreover, stimulated your interest in an analytical approach to such a subject —it has served its purpose.



The Science and Practice of Urban Land Valuation

By WALTER W. POLLOCK

I PROFESS little acquaintance with the academics which are everyday knowledge to distinguished historians, economists, engineers, scientists, lawyers, and statesmen, but I shall express conclusions which, right or wrong, are based on an experience of 36 years in the practice of the art of valuation of land, buildings, machinery, tools, furnishings, and other tangibles, as well as property rights of intangible character.

In directing and participating in the appraisal of billions of dollars' worth of property for insurance coverage, local and federal taxation, accounting, and financing, I have found the recorded concepts of economists and lawmakers in relation to value and valuation incomplete and sometimes misleading. Appraisers who seek in good faith to determine "fair" value, "true" value, or "prudent" value in accordance with conventional, idealistic concepts; or "market" or "cash" value, according to statutory requirements; or who would give full consideration to the legal maxim of the "willing seller" and the "willing buyer," must often clear away a lot of rubbish before they can give proper weight to the facts upon which to base their conclusions.

You will note that I speak of valuation as an art rather than a science. There should and must be a science of appraisal,

but as a result of my experience and observation I am convinced that the true principles and methods of scientific valuation have not always been given proper consideration and weight in the past. It would appear that the enormous financial losses of recent years occasioned by dependence on the old inadequate valuation formulas call for a re-statement of value-definitions and principles of valuation, and the development of workable practices in exemplification of those principles.

The principal differentiation between the theoretical and the practical appraiser lies in the undue emphasis placed by the former upon prices paid as representative of present or future value, and the subordination of more essential value-factors. Theoretically, the selling price of an urban land site, or 1,000 shares of corporation stock, or a bushel of wheat, or a quart of milk is a more or less definite indication of value; practically, the price may represent merely the necessity of the buyer or the seller, or both, or it may be due to unverifiable propaganda. The corner lot for which a purchaser pays \$10,000 will physically support just as good a building as if the lot had cost \$100,000, although the location of one lot may not justify the higher priced improvement. I could name a large corporation whose numerous plants I had a part in appraising, the market price of the stock of which fluctuated from \$8.50 to \$120.00 a share within a year without there being any material change in productive capacity, in production, or in earnings. Twenty-five-cent wheat of a certain grade contains as much nutrition, and has the same use-value as \$2.00 wheat.

This article is from an address by Mr. Pollock at the Fifth Annual Economic Conference for Engineers, Johnsonburg, N. J. The equitable appraisal and assessment of urban land is an ever-recurring problem. It has taken on unusual significance today with the mounting real estate tax burden and the battle being waged by the real estate owner to bring his assessments more in line with deflated income. Mr. Pollock presents an informative discussion based on his long experience. In particular the story of the development of the so-called "Somers System" for "mass" appraising of urban land for assessment purposes will be of interest to the appraisal historian. In this connection the reader's attention is directed to an article by Stanley L. McMichael, M. A. I., entitled "Death Tables" published in the April, 1935, issue of the Journal.—Ed.

Adam Smith, who is described as the founder of the so-called capitalistic system, declared that the only justification for production is for consumption—for use; but in our modern life production is largely unsystematized and prices are not always comparable to use-values. Norman Thomas and Upton Sinclair, in their slogan "Production for Use," have adapted the idea of the founder of capitalism, the difference between the two viewpoints being that these eminent Socialists in some unexplained manner would produce for use only, without profit to anyone. To my mind production for use is not peculiarly a Socialistic doctrine, and its adoption by capitalists would be possible under the present system, if profits can be equitably shared by both producers and consumers. If I were an economist or statesman with an appraiser's experience and viewpoint, I would borrow from Adam Smith and the Socialists, and point the way to the equitable sharing of wealth, by formulating some such slogan as "Production for Use, with Reasonable Profits to All Producers, and to Consumers as Well," to be determined by systematic processes of appraisal and accounting.

I don't know whether it is possible to produce without profit or loss—to balance costs exactly so that there will be no profit. This may be a subject which has been discussed and decided by economists. In a particular instance the equities of profit and loss could be allocated by the combined efforts of accountants and appraisers. Also, appraisers and accountants, working in cooperation with planners and statisticians, could determine the useful values of most of the things that contribute to the well-being of humanity, and thus assist in the coordination of production and distribution, computing reasonable profits in wages to workers, and

reasonable profits upon actual capital value and for management. The consumer could share in profits under my slogan because, when values had been systematically determined, prices would naturally be based on values, and as a worker of either high or low degree, the consumer would receive the money for his services that would enable him to buy for use.

I am aware that the Utopia I have so hopefully intimated would be possible only by suppressing the natural human impulse to speculate, and by actually stabilizing the purchasing power of the dollar, which should always represent "value received."

Perhaps in these suggestions I have unwarrantably entered the domain of the economist, from which I shall hastily retreat to safer ground in the field of valuation. Farther on, however, I shall suggest a plan by which the evils of speculation in real estate might under ideal conditions be neutralized by systematic appraisal of all real estate and through taxation of excessively high or low prices. I shall not undertake to settle the money question, however.

In his recent appearance before the Senate Banking Committee, Mr. Frank A. Vanderlip, in comment on Governor Eccles' proposal to discount real estate mortgages and issue money on that security, declared that he did not see how it would be possible to appraise the values of real estate for this purpose. The only question raised at the hearings relating to values of real estate mortgages as eligible paper for discount was whether money should be issued at 25% or 50% or 75% of the "appraised" value. Apparently no thought was given by Mr. Eccles or any of the Senators or Mr. Vanderlip to the possibility of a near-scientific method of appraisal.

UTILITY AS THE TEST OF VALUE

The ultimate determination of specific use-values under any system of appraisal which might be considered as at all scientific must be made by users, or in the interest of users, rather than by traffickers. The test of validity of any price is upon the point as to whether a purchaser buys "high" or "low" in comparison with his ability to utilize land or to obtain a reasonable return from the use of land, either from occupancy or rentals. In this respect, except for the possibility of speculative gain, the elements upon which valuation of land should be predicated are similar to those which influence the purchase of a suit of clothes or a ton of coal. You buy these commodities for specific uses. It is possible to know whether a price is "high" or "low" by comparison with use-values not only of comparable commodities, but also of comparable land.

In one engagement I had occasion to send appraisers to appraise about 100 land sites in more than half of the States of the Union, owned by a corporation which operated distributing agencies in important cities. The appraisers were given these instructions: "You are to interview as many persons as possible representing each of three types of sources of information relating to the value of each site to be appraised. The first to be interviewed should be the real estate broker, who by the nature of his business is an optimist, and who will appraise the property at all that it is worth and as much more as he thinks he might get for it under favorable conditions. The second class of opinion to be secured is represented by the banker, who by his habit of mind will have but one viewpoint, which is the amount of money which in his opinion could be safely loaned upon mortgage. The third source of information is the best source

of all—the users of land—if in each community you can find persons who own and use land of comparative nature for comparatively similar purposes."

The result of this classification of information from these three typical sources was that it was possible by comparison of the several types of opinion to deduce a fair basis of appraisal for all of these land sites in widely separated communities. It was the users of land who invariably gave the most trustworthy opinions, and their appraisals were all less than those of the real estate men and higher than the bankers. The successful or unsuccessful adaptability of land for use in the past and in the present gives the user a basis for good judgment of value, and after all, that judgment is the foundation of all well-informed opinion as to land values.

If we are to have scientific land valuation we must erase from our minds all hopes of repetition of the Florida and California land booms, and the inflated real estate values which generally prevailed during the 1920's. Something must be done to throttle the activities of promoters of real estate projects who sell for prices which anticipate and exaggerate actual demands for use. The losses of honest investors in such projects could be counted in the hundreds of millions. The promoters' commissions were great. The profits in such transactions were all to the sellers and not to buyers. Only through insistence upon systematic valuation processes can such disaster be prevented in future.

The Securities Act of 1933, now administered by the Securities and Exchange Commission, did not require appraisals of property in connection with applications for registration, and that appears to be the weakest point in the law. The Association of Appraisal Executives, compris-

ing the leading appraisal organizations of the country, has urged the Securities and Exchange Commission to remedy this defect by requiring property appraisals which will show values for use. A "Statement of Principles and Practices of Appraisal for Public Financing" which emphasizes useful value as the goal of appraisal has been prepared by a conference of appraisal and engineering societies under the auspices of the United States Chamber of Commerce.

President Roosevelt has suggested that sellers as well as buyers should "beware." The best warning to those who would unduly profit from excessively "high" or "low" prices for land would be valuation of all real estate by systematic processes which would show the values for all contributing elements, balanced with judgment of losses in useful values, due to possible detracting influences.

THE SUM OF THE PARTS

There is a mathematical principle that the sum of the parts is equal to the value of the whole. This applies to the appraisal of land values in every municipality. It is generally believed that the value of land in any community is due to the number and the class of people who use the land, and the character of the community and individual activities in the use of land. Urban land value is peculiarly susceptible to analysis and to determination not only of the value of the parts but also of the value of the whole; and this applies to the parts of each site, as well as to separate lots in the community. When the grain speculator discovers a shortage or a surplus of wheat and exploits this knowledge in manipulating the market price, he appraises the value of the whole crop. If there is a surplus of wheat the market price goes down. On the theory that sup-

ply and demand are counter active in their effect upon prices we have the strongest support for commodity market prices as the most important measure of value; but the operation of an apparently consistent theory of prices based upon world markets does not prevent inconsistency in prices. Urban land value is a local product, and not influenced except in remote degree in universal depression by other than local conditions. There are many communities in the United States in which real estate prices have been maintained during the depression because they are still based upon realizable values for use.

NEED FOR A NATIONAL APPRAISAL

If it is possible, as I know from experience that it is possible, to appraise values of land sites in an entire city on a comparable basis, it is possible to appraise the values of the land of all the cities in the United States. It is also possible to appraise the values of other land—suburban, rural, forest, plain, mountain, swamp, and desert. Nearly all land is useful in measurable degree, and if not useful, that fact can, in a systematic country-wide appraisal, be determined and stated. Not until all land in the Nation shall be appraised systematically, by uniform methods of analysis of value-factors and deduction for detracting factors, will it be possible to claim that values of individual sites have been scientifically determined. When it is possible to make a definite comparison between the values of sites in the highest valued sections of New York, Chicago, Philadelphia, Los Angeles, Seattle, New Orleans, and Louisville, and medium and low-valued areas of those and other cities, will there be justification in claiming that values are on a verifiable and understandable standard.

The experimenter in natural sciences

finds immutable laws of nature which it is his task to analyze. By contrast, value is a reflection, not of immutable natural laws, but of the habits and behavior of men under our present economic system. Under conditions of life containing so many contradictions value cannot be absolute; but there are many circumstances which justify the formulation of rules for deducting and computing the effect of community life in the creation and maintenance of land values. There is a natural limit to the quantity of land, and a supposititious limit to the quantity of buildings and improvements upon land based on population and standards of living. The appraiser of urban land must apply to his task the results of investigation of these facts. He cannot deduce theories or rules of valuation from unique circumstances, but must develop theories and rules from conditions which are repeated in many communities. *All value, and this is particularly true of land, is comparative.* Therefore, any act of valuation should be founded upon interpretation of circumstances which are repeated many times relating to the actual and potential use and usefulness of land.

THE SOMERS SYSTEM

The late William A. Somers was a modest, unassuming inventive genius, who as City Engineer of the City of St. Paul, devised a system for valuation of land, which was first applied in the City of St. Paul at a time when it was necessary to deflate assessment values. The Somers System is the basis for most of the efforts in recent years in the direction of systematic real estate valuation. Prior to Mr. Somers' development of his system of uniform land valuation the only efforts at setting up rules of appraisal of city land were those growing out of the adaptation of a deci-

sion of Judge Hoffman that two-thirds of the value of a certain New York City lot 100 feet in depth pertained to the 50 feet nearest to the street frontage, and that the other one-third applied to the rear half of the lot. This was a specific judgment in a specific lawsuit, but was followed by New York assessment officials in the development of what is known as the Hoffman-Neill Depth percentage. In his experimentation in St. Paul, Mr. Somers first used the Hoffman-Neill percentage, which he found gave an inadequate amount of value to the front half of a 100-foot lot. Instead of using two-thirds for the first 50 feet, he tested the effect of 75%, and finally compromised by using 72½% as the value of the 50 feet nearest the street frontage, the remaining 27½% applying to the rear 50 feet. With this hypothesis, Mr. Somers devised corner lot tables for high-valued business land. I shall not undertake to explain these tables in detail. I will merely say that they are based upon the theory that the enhancement of corner influence is usually contained within 100 feet each way at street intersections; and the Somers tables provide a method of computing corner influence for all lots so affected. The differences in depth percentages suggested by other appraisers are so negligible that the effect upon any given inside lot valuation is almost imperceptible. The important thing that Mr. Somers did was to devise a system, and the validity of his system has been proved by use in hundreds of cities for assessment purposes, and in thousands of individual appraisals.

After his successful experience in revising the St. Paul real estate assessments, Mr. Somers visited many other cities, including Chicago, Cleveland, Boston, Buffalo, and New York. He was employed by Mr. Lawson Purdy, then the head of the

New York Department of Taxes and Assessments, and in that employment deduced from the valuations of the individual properties made by the Assessors the unit-foot prices which initiated the land value maps which have continued to be published in New York City each year since 1909. These maps are issued following the completion of the assessment each year.

From New York Mr. Somers went to Cleveland, where in 1910 he directed the complete revaluation of real estate for assessment in that city. Mr. Somers gave taxpayers the opportunity to discuss unit-foot prices of land which were first tentatively appraised by the Assessors, then published in newspaper and circular form. It was found that property owners welcomed the opportunity to exchange opinions of comparative street values, and that they could do so intelligently because the problem had been simplified. It was not difficult to see that when "A" and "B" street were both given a \$100 unit-foot price, that price was either fair to both locations, or that it gave too high or too low a value for one or the other street frontages. It was found that many property owners who had previously been favored by low assessments were willing, in a general revaluation, to pay their fair share of taxes on the assurance that all others would do likewise.

Frederick C. Howe, who was a member of the Cleveland Board of Assessors, in his book, "Confessions of a Reformer," described his favorable reaction to the Somers System, which he believed was the forerunner of the Single Tax. In some municipalities where the authorities have installed the Somers System for assessment, they have used the resulting increased total valuation as justification for reducing the total city assessment, and

have reduced the proportion of taxation upon buildings by uniform deduction from appraised values of buildings only, leaving the land without reduction. This course is said to have stimulated building and property improvement, and also has been approved by Single Taxers as a step in the direction of Single Tax. In Pittsburgh there is a "graded tax" law which is not based upon systematic valuation, in which land is taxed at a higher rate than buildings.

In many places where full publicity has been given to the process of appraising and computing land values in advance of fixing assessments, the Somers System has been successful in a large degree in establishing equitable values. Enlistment of able advisory committees of property owners in this work of great public importance is one of the most valuable phases of a systematic community appraisal. In the national appraisal of land which I have suggested, value-consciousness could be aroused throughout the Nation which would have great significance in the education of the public in the implications of value and in the processes of systematic valuation. I am convinced, however, that because of political conditions there can be no hope for a general reform in assessment methods until legislators, state and local, are willing to subordinate the old idealistic and money concepts of value to the more comprehensive concepts of value for use, and to prescribe obligatory processes for determining values for taxation. The Somers principles can be enacted in statutory form requiring assessors to analyze the separate elements of value for each property, and thus obtain equitable values for all properties. The statutory requirements of fair, true, market, or cash values may remain in the laws of the several states with the require-

ment that the final goal shall be value for use.

A CASE IN BALTIMORE

In most communities there is general agreement as to the inequity of assessments of real estate, and time spent in proving inequalities is likely to divert attention from the remedy of systematic appraisal. I cannot resist the temptation of one illustration, which developed in the appraisal for the United States Senate Committee on the Investigation of Post Office Leases. Adjoining a Baltimore railroad station a promoter leased from the railroad company a site upon which he built and leased to the Government a Parcel Post Station. In 1932 I appraised the surface and air rights of the site at a valuation of \$144,000, an average of \$2.54 per square foot. The city real estate assessment at that date was \$39,600, an average of 70 cents per square foot; the Interstate Commerce Commission appraisal was \$70,636, or \$1.25 per square foot; the capitalized value of the rental price paid by the Government was \$315,330, or \$5.53 per average square foot; and the option to the Government to purchase was at a price of \$368,000, or \$8.49 per square foot. Here is a vivid illustration of the spread between price and value that is at the heart of the world's financial difficulties. If the local assessment of \$39,000 is "fair" value, then the rental price paid by the Federal Government under the lease (\$315,330) is more than eight times what it should be. If the Interstate Commerce Commission valuation is correct, then the City of Baltimore is losing a lot of taxes, and the Government is paying an excessive rental. If the \$315,330 lease price is correct, then the Interstate Commerce Commission appraisal of \$70,636 is far less than the statutory fair value prescribed by the Valuation Law as the basis

for passenger and freight rates. My own appraisal at \$144,000 was based on certain unit-foot prices for the streets giving accessibility to the land, with computation of other factors shown in detail. Analysis of the higher and lower appraisals by similar methods would have disclosed unit-foot prices which would have been clearly out of line with Baltimore land values.

UNIFORMITY AND UNIT PRICES

If you go into a store and ask for a certain number of yards of cloth, your transaction is based on pricing the uniform unit of quantity of a single yard. Butter is priced by the uniform pound weight. Commercial practice has established quantity units for the expression of prices or values for most commodities, but for city land the customary units of front foot and square foot are lacking in the uniformity that is necessary to scientific valuation. It is well known that land at and near street accessibility is more desirable and more valuable than at a distance from the street. While a city lot with several value-factors may possess a total value from which may be computed the actual front-foot or square-foot value, it is desirable that land values should be expressed in terms of uniform quantity units, which are in fact the "market" prices. The best quantity unit is usually one foot front with a depth of 100 feet, although where, as in Chicago for instance, most of the lots are 125 feet or some other depth, the unit foot prices and the depth percentages, for convenience, can be made to conform to local conditions.

There is much misunderstanding of the function of the unit-foot as a unit of quantity. It does not of necessity apply to individual lots, which may be of varying depths. The unit-foot when appraised represents the price for a given frontage

and depth which the appraiser believes is reflected to land within a definite area by a single street or highway. Individual lots of the same depth, located so as to be accessible and useful only by reason of a single street frontage, are appraised at the unit-foot price, but any variation in depth, or any enhanced value in excess of that which is conferred by a single street frontage, must be separately considered. Corner influence, alley influence, the value-effect of railway or waterway advantage, plottage—all these and other factors form a basis for separate judgment or computation, as they may add values in excess of the single-street accessibility unit quantity value. The sum of all of the values of all these factors is the normal potential value as computed by acceptable formulas from the unit-foot prices appraised. All of this may be accomplished by rule or process, not only for a specific lot or parcel of land, but for each community as a whole. The detracting effect of topographical irregularities, or special elements of undesirability must be separately judged, and the loss of usefulness as thus appraised is deducted from the computed value. Likewise, any circumstance which gives special enhancement to a particular lot as compared to the normal value, is a subject for special judgment.

As a result of a national appraisal of all municipalities it would be possible to compare "market" values of land in different cities by saying: "This is a \$1,000 street block frontage," meaning thereby that the unit-price is \$1,000.

Improvements in land, such as grading, sewers, water, gas, electric, curbs, paving, roadways, retaining walls, and other services, are considered as adding to land values, and such additions should be considered in the unit-foot prices. Building im-

provements *on* land are not considered as specifically adding to land values.

Value can only be accurately stated by analysis at a given date. The Interstate Commerce Commission valuation of railroads and the appraisals of public utilities, made as of ten or more years ago, are obsolete. The public utility appraisal laws, except in the State of Ohio, were written without the assistance of practical appraisers. Original cost can never be allocated to existing railroad useful property in an appraisal made after a period of years. Directions to appraisers of railroad land undertook to describe a unit system of valuation, but showed inadequate conception of the purpose of such a system by describing units of quantity as "units of value," which in popular understanding applies to standards of money. The so-called "reproduction theory" which in railroad and public utility valuation is a cause of confusion and misunderstanding, is a perfectly clear concept in commercial valuation work. Reproduction cost, ascertained by applying current unitary prices to material, labor, machinery and equipment inventories, will give at any specified date the cost of reproduction new, which is the maximum valuation possible for reproducible property. The accrued losses due to depreciating causes are classifiable under the headings of mechanical deterioration, obsolescence, and lack of utility, and the remainder, when depreciation judgment has been expertly applied, is the current useful value. At the date of the passage of the Interstate Commerce valuation law a rough computation indicated that the land valuation of certain eastern railroads nearly, if not quite, equalled the outstanding securities, without counting the reproducible property. No interstate railroad rates have yet been fixed on valuation, and they never will be

so fixed until all the land of the Nation shall be systematically appraised.

CONTROL OF SPECULATION

What will it profit if we shall ascertain the useful value of all of the land of the Nation without undertaking at the same time to prevent undue speculation in the future? It is probable that a far greater gain has accrued to speculators in land from price increases during the past fifty years than has been earned from the actual use of land. The spread between prices and values of land and securities created an unbearable burden. It would be possible by scientific appraisal to state the useful values back of every stock, bond, or debenture. It would probably be too much to expect the Securities and Exchange Commission to require systematic appraisal and sale of securities at the values disclosed with graduated taxation for abnormal divergence from the appraised values, but if a national appraisal of land should be made, with provision for constant revision of values as conditions should change, it should be possible to limit ownership to users by imposing special taxes upon those buyers and sellers

who would gain by abnormal increases or decreases in prices. Then as now there would be necessitous conditions under which certain individuals or corporations would be obliged to buy, or sell, and the prices would be above or below the systematically appraised values. A tax upon land increment was dreamed by Lloyd George, but failed because of the idiosyncracies of the British law drafters' ideas of the elements of land value which made it impossible to make the necessary valuation. A definite point of departure is possible in the national land appraisal I have described, which would be useful not only in saving the Nation from losses in real estate speculation, but would set up a definite standard for legitimate purchases and sales for use, and would go far in determining equitable assessments for local taxation, and "fair," "true," and "prudent," "market" or "cash" values in adjustment of public utility service rates. Likewise, in all the lending of governmental funds, there would be a definite, reliable record of property dollars which are the underlying foundation of every enterprise which may seek credit from the public funds.

* * *

Comment and Discussion

Green—ON BUILDING A BUSINESS

ALTHOUGH I have been appraising real estate for many years, I still like to classify myself as a "youngster," and, as such, I am exceedingly interested in how to build a bigger and better appraisal business. I have read carefully the article by Mr. J. George Head in the April, 1936, issue of our Journal on "How to Build a Business," and have been impressed with the splendid manner in which this subject has been handled by him.

I believe that an appraiser's greatest asset is his reputation. This is built upon the confidence of the public which in turn is based upon the experience and knowledge of the appraiser. Truly, a reputation as an appraiser cannot be gained in a day, although it can be lost in far less time. To build a reputation requires years of study and satisfactory service to clients. Knowledge and experience are required properly to analyze a property, translate the data thus obtained into terms of future income stream, and arrive at a provable conclusion.

Knowledge of various tables and formulas and their uses may be obtained from text books but only experience can teach us how to apply them properly.

The appraiser must have a detailed knowledge of sales, leases, prices, trends, and market activities in his professional territory in order to be able to render satisfactory opinions and inspire the confidence that builds his reputation and thus helps him to build a business. Mr. Head has well said that in the building of a business "confidence is veritably the cornerstone of its structure."

Just one instance of finding high value or low value on a property because a client

wants it that way may undo the efforts of years of conscientious work toward building a reputation. Too often so-called appraisers will sell their opinion for a fee, fooling no one but themselves generally and working injury to their reputation.

Recently a Judge who had been presiding in a case involving a real estate valuation, remarked to me after he had rendered his decision in the case, "some of the expert witnesses in this case were either grossly incompetent or were selling their testimony, and I cannot believe that they are incompetent." The effect of this witness' testimony in subsequent cases before this Judge may well be imagined.

In the work of obtaining tax adjustments, the practice of asking unreasonable reductions may place the tax assessing officials in such a defensive position that subsequent reasonable requests may not be justly considered. The wise appraiser will decline to handle such cases.

I firmly believe that the matter of fees for appraisal services is one of the most important items in building a business. It has been my experience that clients seldom object to a fair fee; and in some cases they feel that the fee charged is too low. If the appraisal brings about the desired result, there will be no objection to fees on the part of the client. The refusal of an appraiser to cut fees will help maintain his reputation with the right sort of clients.

I sometimes wonder in our efforts to build an appraisal business if we are tapping all of the sources of business open to us. Perhaps we may have overlooked some.

Appraisals for financing purposes are perhaps the most prolific source of income for the average appraiser. There is no question about the fact that the accept-

ance by money-lending institutions of the report of an appraiser will not only give him a source of revenue but help to build the confidence of the public in his ability as well.

Condemnation appraisals and other appraisals involving court testimony bring the appraiser before the public and greatly assist in establishing his reputation.

Appraisals for tax adjustment purposes may be developed as a splendid source of income in most communities, as in practically every community will be found many tax assessment inequalities.

The establishment by an appraiser of a contact with the Internal Revenue Agents and their confidence in his appraisals will have a far-reaching effect in further establishing of public confidence and result in some excellent business.

Wholesale appraisals for ad valorem tax purposes play a large part in bringing the name of the appraiser before the public; and, if he has done a good job, will result in a very good boost for his reputation.

In this task of building an appraisal business, the appraiser must not only study to fit himself for the work, but he must keep on studying in order to keep abreast with modern appraisal technique and trends. In this connection the American Institute of Real Estate Appraisers is doing a splendid work in their appraisal courses at the University of Chicago. I believe that every appraiser should attempt to take advantage of this fine opportunity and attend at least one of these courses in order to brush up on appraisal technique and to gain new ideas from others in the field through this very excellent contact.

JOHN B. GREEN, M. A. I.

St. Petersburg, Florida.

June 13, 1936.

Thompson—ON VALUES VS. PRICES

AS amongst all of our appraisal problems, evaluations of private residential properties have been considered the most simple. This is true so far as the mere mathematics of such appraisals are concerned, but because of one element in the valuation of the single-family residence, such a property calls for a more delicate adjustment and a more refined judgment than any other class of real estate. That element is its amenity value. This is the unknown quantity that must be discovered. It affects the whole property,—which is to say, the land and the improvements thereon. Treating solely of land value in such appraisals there are certain underlying principles which cannot be disregarded.

Economically viewed an ideal situation is realized only when the price of a commodity represents its value, present or potential. As affecting real estate, during periods of general financial depression the price quoted or realized is ordinarily far below potential value. It is just as true that during times of inflation which are induced by mad speculation, warranted values are far below prices obtained. It is only when in their sober judgment well-informed investors base their purchases upon value as proven by a fair return to capital that "price" and "value" become synonymous terms.

The evil effects of the depression which began in 1929, as regards real estate properties, are too well-known to warrant specific discussion. Under conditions created by the general financial debacle, real estate gradually but surely lost ground. Actual values became less and less as income from properties receded to lower and still lower levels—the while charges for maintenance were practically static and increases in taxes were almost proverbial. This is what

has happened to all classes of improved properties. The effect upon unimproved property was disastrous in the extreme. Without producing an income or rendering a service; in a majority of cases mortgaged; no actual buyers for use or investment at hand; unimproved real estate became a drug on the market, a thorn in the flesh and a nightmare in the mind of owners. Many properties went under the auctioneer's hammer, while others were deeded to the mortgagee where incumbrances represented only 50 per cent or less of original cost. Of such properties those which fell into the hands of lending institutions were frequently offered below figures at which they were taken over. Accordingly, vacant, non-productive real estate (in other words raw land) has suffered far greater depreciation in price than has improved properties which could enjoy an income even though that income had become greatly reduced, for due to rents collected the owner could at least meet carrying charges even if he must forego net return on capital investment for the time being. So while we have observed declines in improved property of from 30 per cent to 40 per cent, the recession as affecting unimproved property has been from 40 per cent to 60 per cent.

To the real estate owner, to the appraiser, to the intelligent real estate broker, these observations are so obvious as to be trite. To the future investor, however, they may unfold a lesson which can be turned to profit.

That which follows is argument in demonstration of the assertion that a certain class of unimproved real estate is now being sold at prices far below warranted value. The class of real estate to which we refer is that available for residential use.

Our thesis is based upon the following general principles:

First: Real estate is divided into three general classifications which are: Non-income; income, and service properties. Under the heading of non-income properties falls all real estate the highest and best use of which is for residential purposes. The value of such a property does not rest upon its economic worth as a producer of income, for rarely will it earn an income justifying the necessary investment for land and improvements. It is only by crediting to such properties the amenity values inherent in home ownership that their true or warranted value is discovered.

Second: Urban land has no immediate value until and unless improved. Its value is discovered by ascribing to it the highest and best use to which it may be put when the time is ripe for its development. This we term "potential value." Until employed for such use, vacant land is a liability instead of an asset. It is, accordingly, only by use of capital and labor to create a proper and warranted improvement thereon that land becomes of practical (as opposed to potential) value.

Third: There has, in each era of development of residential properties, been discernible a direct relation of land value to total cost of land and improvement. This is an unwritten law. For the establishment of such fixed relation there is no economic formula. That such a ratio between cost of land and cost of improvements does exist in homes of the average type is a matter of history and it is demonstrable from records extending over years of experience. It is true that this relationship has changed with changes of the times and with the birth of new conditions, but in each definite era there has appeared a fixed relationship which has

proven sound and which, furthermore, has exercised a very definite controlling influence upon the value of unimproved residential properties. Accepting this as a fact, it follows that in any given residential section restricted as to character and value of improvements permitted therein, a definite land value is at once established.

Now let us for a moment consider how this unwritten law has operated at various times and what it is today.

Going back to the last ten years of the last century the relationship of cost of land to total cost of land and improvements was practically one to three. In other words, the land cost was usually one-third of the total. Just how long this ratio continued we are at a loss to say. We do know, however, that it gradually came about that land values bore a smaller relation to total cost until today there has been established a ratio of approximately one to four. That is to say, the land value is about 25 per cent of the total of operation for all normal, average residential properties in the price range of from \$6,000 to \$20,000 total cost of reproduction.

Just here it may be remarked that this change downward in warranted land value has been brought about, in part at least, by increased cost of labor and material to produce the improvement upon the land and by better transportation facilities both public and private which have, to a very great extent, annihilated distances, thus bringing more remote properties into the market thereby creating greater competition.

Taking now, as a fact fairly established that the warranted relationship is, as stated above, 25 per cent for land value for residential use, let us consider how this applies to our market today.

Due to the encouragement only recently

offered by some lending institutions and very particularly to the financing of homes by the Federal Housing Administration, many substantial real estate developers, as well as a number of private individuals, have engaged in the construction of private residences. We will use without names, or definite statement as to actual locations, concrete examples of some of these projects. The examples used are taken from three actual developments.

Section A: In this section homes are being built the actual costs of which range from \$4,500 to \$5,800. The average cost, accordingly, is \$5,150. Land (55 feet frontage) is sold at \$20 per foot. Total cost of land \$1,100. This represents approximately 18 per cent.

Section B: In this section cost of improvements range from \$5,600 to \$6,400; an average of \$6,000. Plots are 55x120 feet, and the cost is \$20 per foot, or \$1,100. This represents less than 16 per cent.

Section C: In this section houses have been built costing an average of \$11,000 each. Plots average 70 feet frontage. Land has sold at \$40 per foot, or a total \$2,800. The total value of land and improvements is \$13,800. The land in this section represents approximately 20 per cent of total cost.

More briefly stated, the justified value of a building plot is one-third of the amount to be expended for the improvement thereon. If the house is to cost \$6,000 the warranted value of the plot is \$2,000. If the house is to cost \$8,000, the warranted value of the plot is approximately \$2,700. If the house is to cost \$12,000 the warranted value of the plot is \$4,000.

Actual statistics covering construction costs as furnished by the "Engineering News Record" for the past ten years are as follows:

1926	100%	1931	87.17
1927	99.14	1932	75.45
1928	99.40	1933	81.85
1929	99.51	1934	95.22
1930	97.31	1935	93.81

This comparison shows that construction costs on January 1, 1936, were only .0619 per cent under those of 1926. A comparison of prices obtained for land in 1926 with prices maintaining today will show that present prices are from 25 to 40 per cent lower than in 1926.

It seems inevitable that to reach the norm of warranted value prices must automatically increase until a proper relationship between cost of land and cost of improvements has once more been established.

To use the phraseology employed on Wall street, this condition will continue until the "shorts" are squeezed out of the market. Then and only then will vacant residential property come into its own.

Not since the beginning of the depression has there been sounded the notes of confidence which one hears today in the real estate field. This reawakened spirit of optimism is founded upon factual data. It is not merely a sentiment of hopefulness designed to discount future developments. The outstanding demonstration of recovery is to be found in the building and selling of private residential properties, that has taken place during the past six months.

BURTON THOMPSON, M. A. I.

Elizabeth, New Jersey.

June 8, 1936.

Dunn—ON THE TORRENS LAW

DO you know that Cook County is the only County in the State of Illinois enjoying the benefits of the *Torrens Land Registration Law*?

It is a strange anomaly that the Legis-

lature of the State passed a law enabling a great saving to the public in a constantly recurring expense, operative in Cook County, but inoperative in any other County unless by a petition of at least 50% of the voters of that County as registered at the last general election. An outstanding illustration of the indifference of the American public to questions of public economy!

Some forty years ago a small group of public-spirited Chicago citizens, tiring of crude, cumbersome, outdated methods and almost prohibitive costs encountered each time the transfer of real estate occurred, went to the Illinois Legislature with a bill patterned after the Australian Torrens Law.

The name "Torrens" is synonymous with the law since it was probably conceived by Sir Robert Torrens, a native and legislator of Australia. He introduced the law, compiled in legal form, into the Australian legislature and secured its passage in 1858. Its merit spread rapidly, soon became worldwide knowledge among those interested in real estate titles and ownership, was rapidly adopted by the various members of the British Empire, and is in general use in many other countries, in the original form or a modification best suited to the basic law of the country of its adoption.

The law is a system of public (not private) registration of land (real estate) titles.

The first Torrens law in Illinois was enacted in 1895 as a result of the efforts of the afore-mentioned group of Chicago citizens; but, due to a defect in its construction that conflicted with constitutional provisions it was declared unconstitutional. A corrected form was then introduced and passed into law in 1897. The law has been contested until almost every clause in it has been reviewed by the Su-

preme Court of the State and *in every case has been upheld by that authority*. Its use outside Cook County however has been rendered wellnigh impossible through the passage of an act that requires the heretofore mentioned 50% petition of voters of each county.

Since the law was passed in Illinois, many other states of the Union have adopted it, either in the same form or modified to fit their basis law. The following states have the law in more or less general use:

California	Oregon
Colorado	South Dakota
Georgia	Tennessee
Massachusetts	Utah
Minnesota	Virginia
Mississippi	Washington
Nebraska	Hawaii
New York	Puerto Rico
North Carolina	Philippine Islands
Ohio	

The Torrens law provides many advantages to owners, buyers, sellers, and operators, in addition to the great savings in cost. Among the outstanding might be mentioned:

1. Relief from cumbersome abstracts and other forms of title by application to the Registrar of Titles for registration under the Torrens Act. A suit is entered in the County Court by the Registrar to once and for all time clear the title of any and all defects that may exist by virtue of past occurrences. From the date the Court's Decree becomes effective there is no need ever to search back of that date for title defects.
2. A record of the title as found by the Court is entered in a book known as the Torrens Sheet and thereafter kept at the Registrar's office. Thereafter, all deeds, mortgages, liens, assessments, or instruments affecting title *must be registered on that sheet*, so that anyone interested in the title be he owner, purchaser, or otherwise, if he can read, he may know the condition of the title.
4. All instruments affecting title so registered must be filed for record in *duplicate*, the original copy of which remains in the Regis-

trar's files. No need for the costly lawsuits so frequent after deaths and lapse of time when disputed instruments may be missing or lost by careless owners. Each new owner files a *sworn copy of his signature* with the Registrar so that when subsequent instruments purporting to be signed by the owner are presented for record the signature is compared. This reduces forgery almost to an impossibility.

5. The entire wealth of the County of Cook is, under the law, pledged as security for any loss that may occur through error in the title certificate. In addition, as each new applicant applies for registration he pays a fee of \$1.00 for each \$1,000.00 valuation of his property as a contribution to a guaranty fund, ready at all times for the immediate payment of any such loss. This fund, required by law to be invested in Government securities, is now approximately \$350,000.00. *The combined losses since 1897 (38 years) have not equalled one year's interest on this fund.* This is outstanding proof to the laymen of the slight loss that occurs in title registrations.
6. No expensive insurance policies to indemnify buyers or mortgage lenders are necessary. No increasing insurance cost by virtue of a rise in the current value, or by improvements that may be erected on the land. *The U. S. Government, major insurance companies, trust companies, and banks accept Torrens certificates as sufficient evidence for mortgage insurance.*
7. No long list of names of persons whose names may be similar to the owner's name and who may have judgments against them constituting a cloud on title to be removed by tedious and expensive affidavit *every time a title is transferred*.
8. Liens and judgments, to be valid, must be of record on the Torrens sheet. Tax deeds are invalid without the owner's full knowledge of their existence and with provision for an extended redemption period. Bankrupt Trust Companies, careless attorneys, or managers frequently subject an owner to this trouble when property is left in their care.
9. Transfer of title, if no complications and title is clear, can be effected in less than $\frac{1}{2}$ hour in time and at a cost of \$4.00, regardless of the value of the property.

This simple, speedy, inexpensive method of transferring title is available to all real estate located in Cook County. Any owner can register his property by application

to the Registrar of Titles and filling out an application blank.

Torrens registration is not a private venture. It is a *law*. Laws do not make a profit for themselves, therefore do not have funds with which to advertise their merit. "Ignorance of the law excuses no man." Those owners and operators who have made themselves familiar with the law profit by it immensely and have been doing so for more than 30 years. Its general use is prevented perhaps only by lack of understanding of its merit and familiarity with its operation by the public at large.

DOMINICK DUNN, M. A. I.
Chicago, Illinois, March 8, 1936.

England—ON DEPRECIATION FOR INSURANCE PURPOSES

I have read the article by Mr. Thompson on "Depreciation for Insurance Purposes" in the April 1936 issue of this JOURNAL; and I wish to say that it is written up in a satisfactory manner and no doubt will be of much interest to its readers.

I have one or two comments to make. Where actual cash value is mentioned, I believe it might be better to use the term "sound value" as this is the explanation used in nearly 99 out of 100 cases.

The following might be added to the explanation of the 80% clause:

"80% clause part of policy contract.
Value \$10,000
Amount required 8,000
Amount carried 5,000
Amount loss 2,000
\$5,000 (amt. carried)

Ins. Co. pays _____
\$8,000 (amt. required)

times the loss (\$2,000) or \$1,250.

If the proper amount (\$8,000) was carried the insurance company would pay the full amount of loss, namely, \$2,000.

In case the loss is total, the co-insurance

clause does not apply, and the insurance company would pay the full amount of loss."

Mr. Thompson says that obsolescence has little influence on the insurance value. Generally speaking, however, where obsolescence enters into a piece of property, the insurable and sound value of such property would be affected materially by obsolescence.

WESLEY P. ENGLAND,
Gilmore, Clarke and Cortis.
New York City, March 11, 1936.

Gaddis—ON HORIZONTAL DIVISION OF VALUES

ABOUT twenty years ago, I was requested to appraise the value of the land in a Railroad Terminal located in New York City. The matter presented a problem that I never had to meet squarely before, or even heard seriously discussed up to that time. It required some careful analysis, clear reasoning, and the application of basic principles.

The property in question was the Atlantic Avenue Station of the Long Island Railroad in the Borough of Brooklyn, New York. The station occupies an entire city block, irregular in shape, and bounded by streets.

The fee title was in the Railroad, and the entire block was developed and used by them. They had three track levels; viz. one on the surface, or street grade, another elevated above grade, also one below grade. *Also subject to an easement for fourth system of tracks to cross below the above.*

The easement was about thirty feet below grade, was fifty feet wide by about 30 feet long, and used by the City as a part of their subway system.

The easement was covered with a concrete slab 5 feet thick for the entire length and breadth. The slab would furnish

ample support for any reasonable load up to a twenty-story building.

The land at the time (1918) was worth approximately \$1,000,000.00. The easement had been sold by the Railroad Company to the City for \$400,000.00.

The problem was: what was the land worth subject to the easement?

On considering the matter, I recognized the fact that modern development, evolution in construction, and uses of land had caused to be recognized a division of land value not generally thought of heretofore, and as a result worked out what I think was a new principle in real estate valuation. By that I mean, a horizontal division.

It is a basic fact that a full fee title, as we understand it, carries with it all rights of ownership; which rights include complete use of the surface, sub-surface, and overhead, for such immeasurable distance up or down as the same may be exercised, subject only to the four limitations, that all land ownership in this country is subjected to.

On our adoption of the Allodial system of land holding from the English, the government assumed the four following rights, or limitations against land:

First—The right to tax.

Second—The right to exercise police powers.

Third—The right of eminent domain.

Fourth—Escheat.

Any right, easement, privilege, or limitation of use, to which a property is subject affects one or more of the three following horizontal divisions: Sub-surface, surface conditions are sewers, conduits, constitute a portion of the fee value, which portion is not constant or the same in all places. However, the value of the aggregate of the parts cannot exceed the value of the whole or 100%, the fee value.

There are, of course, many sub-divisions of the three basic divisions.

Among the many matters affecting sub-surface conditions are sewers, conduits, tunnels, mineral, oil, and/or water rights, etc.

The surface uses primarily are too obvious and general to need any extended comment.

Among the overhead uses are elevated railroads, bridges, and other structures. However, Air Rights have assumed a prominent place recently.

When we are called upon to appraise any property, it is well to keep the matters heretofore referred to in mind, and if one or more of them apply, to consider them carefully and set them up briefly.

Also, it is well to keep the following definition of land value in mind, one by the author, which he has used for more than 25 years past:

"Land Value, is locality value: or the price a piece of property should bring in the position where situated, and nowhere else, brought about by the development of the circumjacent territory of which it is an integral part, and adds to or deducts from as the case may be."

If, however, the limitation or easement, is the major subject of the appraisal, a careful analysis of the fee value should be made and a base arrived at for the three major sub-divisions. Then further careful analysis of the local situation should be made to arrive at the proper modifications of the basic proportions, be they either more or less.

SUB-SURFACE EASEMENTS

Time will not admit of going into an extended development of the three divisions: However, I will dwell briefly on the sub-surface elements.

One of the most important matters to

be considered, is consequential damage, which damage, is elusive, and requires careful analysis and clear thinking, in order to define it.

The fact that cost is not necessarily value, seldom represents value, and at times is only a minor element, must not be lost sight of.

One of the most serious elements to be considered, tied up with consequential damage, is the limitation of use by construction, maintenance, and operation of any sub-surface easement upon the remainder. It is obvious that a subsurface easement may result in only a nominal damage, which would be the case where it does not injure or limit any reasonable use of the remainder, in which case the easement becomes only a title blemish, one that will turn up in every search and present some sales resistance. Experience with more than a dozen tunnel operations where no practical limitation of use has resulted have had no perceptible effect on the sale, resale, or securing of a loan. However, twenty years ago it was almost impossible to secure a bank or private loan on property subject to a sub-surface easement.

There is a tendency on the part of the appraiser, when appraising a sub-surface easement to consider improperly the element of consequential damage before any construction has been started or use been made of it.

When an appraisal is made of a sub-surface easement before any construction is started or use made of it, it is obvious that no consequential damage, other than a title blemish, can exist.

Any damage caused by construction, maintenance, or operation can only occur through progress of the work, its completion and operation, and if a physical damage results either injuring or destroying

property, the granting of an easement will not release the grantor from right of action and recovery. Mineral and mining rights, while in sub-surface matters, are of a highly specialized nature and will not be considered here.

METHOD OF PROCEDURE

First: I proceeded to find the full value of the land by establishing as a base a unit foot value on the various street frontages in the customary manner followed by appraisers.

Second: I proceeded by dividing the tract into zones of value.

Third: I applied the unit values to the zones in the customary manner, recognizing corner value, using depth rules where applicable, and over-all plottage or assemblage value, the aggregate of which formed my judgment of the full fee value of the plot for its highest general use.

Fourth: I found the value of the easement in the manner described later, and deducted the same from the fee value as stated above and the remainder represented the value of land subject to the easement.

In this case, in arriving at the value of the easement, I reduced the fee value of the portion of the various zones that were subject to the easement by 10%, that being a sub-division of the sub-surface percent, as the easement affected only a portion of the sub-surface use. I used basically the following horizontal division of value:

Sub-surface use	20%
Surface use	50%
Overhead use	30%
Total	100%

Although the easement sold for \$400,000.00, the value ascribed to it was approximately \$40,000.00, which supports

the well-known fact that cost is seldom the controlling element of value.

While the principle is correct, the above statement of proportions are quoted only for purposes of illustration, and I know that they would not be controlling in a majority of cases. The proportions mentioned should not be used generally, because circumstances will alter or change the divisions depending on such local conditions as have to be met.

It is the duty of an appraiser to make a careful analysis and study of all the facts, in order to arrive at the proper proportion to use in his specific case.

I trust that the principles considered may be of interest to my readers and provoke some discussion of this important matter.

PERCY A. GADDIS, M. A. I.
Jersey City, New Jersey,
May 11, 1936.

* * *

Current Articles

Appraisal systems for tax purposes. Joseph D. Silverherz. R. E. R. July 18, 1936, p. 30. \$0.70. The author is Research Investigator, New York State Tax Commission.

Appraisals for use in mortgage loans. Edward F. Hosinger. L. I. R. M. June, 1936, p. 5. \$0.45. Mr. Hosinger, President of the Long Island Real Estate Board, suggests simplified methods rather than complicated procedure.

Appraising a farm. Stanley B. Sink. N. R. E. J. May 1936, p. 50. \$1.20. 240-acre tract, located in the Kankakee River Valley, Porter County, Indiana.

Appraising the plumbing. W. J. Schlegel. R. S. R. A. June 1936, p. 6. \$0.55. A good article on an important subject which has received little consideration.

Can we "immunize" mortgages? Ernest M. Fisher. I. M. P. July 19, 1936, p. 16. \$0.35. A plea for more recorded experience.

Depression alibi vs. courage. Herman O. Walther. R. E. July 11, 1936, p. 12. \$0.30. A warning to real estate men to profit by the experience of the last depression.

Distribution of urban home mortgages by types of lenders in five states. F. H. L. B. R. July 1936, p. 351. \$0.30. Considerable differences revealed in types of lenders, average size of mortgages, and use of junior mortgages.

Economics of valuation procedure. Wallace W. True. E. July 4, 1936, p. 4. \$0.35. Continued in issue of July 11, 1936, p. 4.

Everybody is buying a farm. S. B. J. July 1936, p. 17. \$0.55. Sales have nearly doubled during the first four months of this year due to threats of inflation.

How wide should a street be? Louis A. Harrison. R. S. R. A. June 1936, p. 5. \$0.55. The effect of street width on the value of abutting property.

Limitations of real estate statistics. Norbert Brown. R. E. R. July 18, 1936, p. 12. \$0.70. A sound criticism of national indices.

Measuring the housing shortage and the demand for homes. William C. Bober. N. R. E. J. July 1936, p. 48. \$0.70. Mr. Bober is associated with the Statistical Research Dept., Johns-Manville Corporation.

Monotony in cities. Arthur A. Shurcliff. P. J. May-June 1936, p. 57. \$0.70. For the appraiser who is interested in the changing pattern of our cities.

Removing the obstacles to group rehabilitation of real properties. Arthur C. Holden. J. L. P. U. E. May 1936, p. 161. \$1.45. Mr. Holden's association with the Land Utilization Committee, New York Building Congress and the Mayor's Committee on City Plan for New York gives him first hand information on the problems involved in group action.

Small houses as mortgage risks. Frederick M. Babcock. R.E. July 11, 1936, p. 9. \$0.30. Investment possibilities of small homes under \$3,000 in cost.

What is depreciation? Morton G. Thalhimer. J. R. E. M. July 1936, p. 128. \$1.45. The property manager looks at depreciation.

Why do Chicagoans buy homes? L. M. McDermott. R. E. July 11, 1936, p. 10. \$0.30. Survey completed by the Advertising Dept. College of Commerce, De Paul University.

The full names of the magazine indicated by initials on these pages are given below:

E.	The Economist	Weekly.
F. H. L. B. R.	Federal Home Loan Bank Review	Monthly.
I. M. P.	Insured Mortgage Portfolio	Monthly.
J. R. E. M.	Journal of Real Estate Management	Quarterly.
J. L. P. U. E.	Journal of Land and Public Utility Economics	Quarterly.
L. I. R. M.	Long Island Realty Magazine	Monthly.
N. R. E. J.	National Real Estate Journal	Monthly.
P. J.	The Planners' Journal	Bi-monthly.
R. E.	Real Estate	Weekly.
R. E. R.	Real Estate Record	Weekly.
R. S. R. A.	Review of the Society of Residential Appraisers	Monthly.
S. B. J.	Savings Bank Journal	Monthly.

Copies of the magazines in which these articles appear may be secured from the Library of the National Association of Real Estate Boards, 22 W. Monroe St., Chicago, Ill. The price listed includes the price of the magazine and a small service charge for mailing and postage. Subscriptions may also be placed through the National Association.

Inflation and Your Income

"A man's judgment is no better than his information"

Abstracted from a Bulletin of the Business Information Bureau of the Cleveland Public Library of Cleveland, Ohio, Vol. 7, No. 3, March, 1936, prepared by the Business Research Librarian.

Accounting Practices During Inflation

SWEENEY, H. W. Effects of inflation on German accounting.

In: *Journal of Accountancy*, March, 1927, p. 189-90.

How inflation affects balance sheets.

In: *Accounting Review*, December, 1934, p. 275-99.

How inflation would affect the balance sheet of a business.

In: *Controller*, June, 1935, p. 106-11.

VARAY, HENRY. Reserves for depreciation and inflation.

In: *Journal of Accountancy*, September, 1935, p. 206-8.

WASSERMAN, M. J. Accounting practice in France during the period of monetary inflation (1919-1927).

In: *Accounting Review*, March, 1931, p. 1-32.

Effects of Inflation on Real Estate Trust Funds and Endowments

AYERS, M. V. Inflation and real estate.

In: *National Real Estate Journal*, February, 1935, p. 31-2.

BLOCK, ALEXANDER. Currency inflation in Germany: its effect on real estate.

In: *Journal of the American Institute of Real Estate Appraisers*, January, 1936, p. 62-6.

*BOGEN, J. I. Effect of inflation on real estate. 1936.

DAVIS, W. L. The impending inflation and its effects on real estate.

In: *National Real Estate Journal*, December, 1935, p. 26-7.

FAIRBANK, ALFRED. What are the duties of trustees in investing trust funds in the present monetary situation?

In: *American Bankers Association—Trust Division Year book*, 1933-1934, p. 24-33.

HOLZMAN, J. M. Would inflation help real estate owner? What may happen in the light of French and German experiences.

In: *Barron's*, November 19, 1934, p. 5.

KEMMERER, E. W. Inflation and the endowments of our public welfare institutions.

In: *Trust Companies*, October, 1934, p. 419.

Europe's Inflation Experiences

ANGELL, J. W. Reparations, inflation and collapse.

In his: *Recovery of Germany*. Revised edition. Chapter 2. 1932.

ARA, YONEO. Experience of France affords little basis for fear of currency inflation.

In: *Annalist*, September 13, 1935, p. 355-6.

BABSON'S REPORTS, INC. How inflation affects stocks.

In: *Barometer Letter*, March 23, 1936, p. 1, 4.

BACH, GERSON. What inflation cost Germany.

In: *Savings Bank Journal*, February, 1934, p. 27-28.

BOEKEL, R. M. Inflation in Europe and the United States.

In: *Editorial Research Reports*, October 4, 1934, p. 223-39.

COWELL, BAINBRIDGE. Inflation in France.

In: *Clevelandader*, November, 1934, p. 5.

DULLES, E. L. Dollar, the franc and inflation. 1933. The French franc 1914-1928; the facts and their interpretation. 1929.

EINZIG, PAUL. Inflation.

In his: *World finance, 1914-1935*. Part I. 1935.

GRAHAM, F. D. Exchange, prices and production in hyper-inflation; Germany, 1920-1923. 1930.

HARWOOD, E. C. Why there is real danger of serious inflation; a dissenting opinion.

In: *Annalist*, October 4, 1935, p. 461-2.

*Pamphlet. Name of publisher supplied on request.

HUNTER, ROBERT. Inflation and revolution; some lessons from earlier currency experiments; an analogy in the French economic crisis.

In: *Barron's*, August 13, 20, 1934, p. 5, 6.

KEMMERER, E. W. Germany's experience with inflation, 1914-1923.

In his: *Money*. Chapter 13. 1935.

*LANDIS, W. S. An engineer looks at inflation; its effects in Germany and France. 1933.

*MORTON, W. F., AND DRURY, T. F. A study of the post-war French inflation. 1933.

OGBURN, W. F. AND JAFFE, WILLIAM. Some effects of inflation on trade; some effects of inflation on production.

In their: *Economic Development of post-war France; a survey of production*. Chapter 6 and 7. 1929.

ROGERS, J. H. The process of inflation in France, 1914-1927. 1929.

SCHACHT, HJALMAR. Stabilization of the mark. 1927.

SCHWEDERSKY, HERVE & DEUTSCHEIN, J. A. Inflation and wealth; the varying experiences of European investors in safeguarding funds.

In: *Barron's*, February 26, 1934, p. 8.

Inflation; France and U. S. compared.

In: *Barron's*, May 14, 1934, p. 6; May 28, 1934, p. 6.

Lessons of French inflation; "la grande penitence."

In: *Barron's*, August 27, 1934, p. 8.

WASSERMAN, M. J. French enterprise under inflation; a balance sheet analysis.

In: *Accounting Review*, June, 1934, p. 130-9.

Inflation and enterprise in France, 1919-26.

In: *Journal of Political Economy*, April, 1934, p. 202-36.

*WRIGHT, P. G. Inflation and after; case studies of the effects of inflation in France, Germany and Austria. 1934.

Inflation and the Investor

*AXE, E. W., AND HOUGHTON, R. E. Inflation and the investor. July 14, 1934. (Axe-Houghton Economic Studies, Series C, No. 2.)

BABSON'S REPORTS, INC. If inflation comes!

In: *Special Letter*, March 23, 1936, p. 1-2.

FANT, R. B. Inflation looks at the investor!

In: *Barron's*, April 1, 8, 15, 1935, p. 3, 6, 7.

FLYNN, J. T. Inflation—when and how?

In: *Harper's Magazine*, June, 1935, p. 1-10.

GIBSON, THOMAS. Gold, money and credit.

In his: *Annual forecast for 1936*, Chapter 2.

*HARWOOD, E. C. What will devaluation mean to you? And five other articles of vital importance to the average man. 1934.

INFLATION—its consequences.

In: *Poor's Analytical Services*, April, 1933, p. 1-4.

INFLATION talk.

In: *Moody's Stock Survey*, February 3, 1936, p. 551-2.

INFLATION talk and the bond investor.

In: *Moody's Bond Survey*, January 20, 1936, p. 571.

KEMMERER, E. W. Investor's problem under current conditions.

In: *Investment Banking*, November 14, 1934, p. 30-3.

*KIPLINGER, W. M. & SHELTON, FREDERICK. Inflation ahead; what to do about it. 1935.

ONE of three ways.

In: *Babson's Washington Reports*, February 10, 1936, p. 1-3.

*PROSPECTS for inflation; a conference held at University of Minnesota. 1936.

*TILLOTSON & COMPANY. Your protection in inflation. 1936.

*WOOD, HOWARD. Inflation and your money. 1935.

Digest of the Minutes

The Governing Council of the American Institute of Real Estate Appraisers convened at the Palmer House in Chicago, Illinois on May 26, 1936 at 10:30 A. M. President Maurice F. Reidy presided. The following were present:

Maurice F. Reidy—Worcester, Mass., President.
K. Lee Hyder—Milwaukee, Wis.
Norman L. Newhall—Minneapolis, Minn.
E. L. Ostendorf—Cleveland, Ohio.
Charles F. Curry—Kansas City, Mo.
Charles J. Daly—St. Louis, Mo.
D. Earl Wilson—Miami, Fla.
A. C. Houghton—Washington, D. C.
W. H. Ballard—Boston, Mass.
Arthur S. Kirk—Des Moines, Iowa.
James J. Grogan—Cincinnati, Ohio.
Ralph V. Field—Galesburg, Illinois.
Newton C. Farr—Chicago, Illinois.
George W. Drennan—Detroit, Michigan.
Harry E. Gilbert—Baltimore, Md.
Philip W. Kniskern—Philadelphia, Pa.
Mark Levy—Chicago, Ill.
Joseph Laronge—Cleveland, Ohio.
Herbert U. Nelson—Chicago, Ill.
Harry Grant Atkinson—Chicago, Ill.

Minutes of the meeting held in Washington, D. C., January 16, 1936

On motion of E. L. Ostendorf, seconded by Charles J. Daly, and duly carried the reading of the minutes held in Washington, D. C., on January 16, 1936 were waived.

Membership Report

The following membership report was presented:

	April 30, April 30,	
	1936	1935
1. Number of Members.....	488	350
2. Number of Associate Members	19	10
3. Number of Affiliate Members	186	175
	653	535

Delinquent Members

It was moved by E. L. Ostendorf, seconded by Arthur C. Houghton, and duly carried, that certain delinquent Members and Associate Members be dropped from membership unless their dues are paid within thirty days.

Resignations

It was moved by Arthur S. Kirk, seconded by Norman Newhall, and unanimously carried that the resignation of Associate Member George H. Snyder of 1040 Third National Building, Dayton, Ohio be accepted.

Report of the Admissions Committee

Ralph V. Field, Chairman of the Admissions Committee, presented the new Rating Sheet to

be used in connection with the scoring of examinations and checking of sample appraisals of candidates, and requested suggestions for revision.

The following recommendations of the Admissions Committee were presented and acted upon as indicated:

A motion to elect the following candidates to Member Grade was made by Ralph V. Field, seconded by W. H. Ballard, and unanimously carried.

Leonard M. Cowley—Phoenix, Arizona.
Ernest Allsopp—Lakeland, Florida.
George Becker—Chicago, Illinois.
Francis S. Bailey—Worcester, Mass.
Amadeo Giordanao—Bronx, New York.
Charles A. Nehring—New York City.
I. Lincoln Seide—New York City.
Edmund T. Collins—Toledo, Ohio.
Alfred B. Kissack—St. Louis, Mo.
Rudolph Kruger—Newark, N. J. (Transferred from Associate Grade).

On motion of E. L. Ostendorf, seconded by Arthur C. Houghton, and unanimously carried, Arthur D. Wall of Denver, Colorado was elected to Member Grade under Article II, Section 2, Sub-section "E" of the By-Laws, as a specialist in farm land appraising.

Ralph V. Field moved, seconded by Arthur S. Kirk, and unanimously carried that Frank B. McKibben of Indianapolis, Ind., be re-instated to Member Grade.

On motion of Ralph V. Field, seconded by Norman L. Newhall and duly carried, thirteen additional candidates were elected to Member grade, subject to stated conditions.

On motion of Ralph V. Field, seconded by E. L. Ostendorf, and carried, John J. Savage of Springfield, Illinois was elected to Associate Member Grade.

On motion of Ralph V. Field, seconded, and unanimously carried, the recommendations of the Admissions Committee to defer action on thirty applications for reasons as stated, to close the files of five applicants, and to withdraw one application were approved.

Report of the Committee on Education and Research

K. Lee Hyder, Chairman of the Committee on Education and Research, presented a report of progress, which was unanimously accepted on a motion by Ralph V. Field, seconded by Newton C. Farr.

Report of the Public Relations Committee

A written report by Ralph D. Baker, Chairman of the Public Relations Committee plus a supplementary report from S. Edwin Kazdin on the status of the New York State licensing bills were presented. On a motion by E. L. Ostendorf, duly

seconded and unanimously carried, the reports were accepted and filed.

Report of the By-Laws Committee

Philip W. Kniskern, Chairman of the By-Laws Committee, in reporting for his Committee submitted the following resolution:

"WHEREAS it has occurred, and may again, that two or more members of this institute have testified, or may do so, or otherwise express valuations on the same property substantially at variance, and

"WHEREAS, while it is recognized that judgments of value may always vary to some degree, nevertheless, it is not conducive to confidence in the Institute when there is too wide a divergence between the expressed opinions of Members of this Institute as to value, and

"WHEREAS, it is one of the purposes of the Institute to develop uniformity of approach and analysis and thereby greater stability and uniformity of valuations by its Members

"NOW, THEREFORE BE IT RESOLVED

"That the By-Laws of this Institute be amended by the addition of the following new section 8 to Article VI.

"It shall be the obligation and duty of every Member and every Associate Member of this Institute formally to notify the President of the Institute of each and every instance coming to his attention where two or more Members or Associate Members of the Institute shall have testified or otherwise publicly expressed opinions of the value of the same property as of or about the same date where such valuations show an excessive or seemingly unwarranted variation between the two valuations.

"Such reports shall be referred promptly to an Investigation Committee with instructions and power to make such investigation as seems to it to be appropriate. Any member whose valuation has been so reported or whose valuation is being investigated shall, upon his request, have the right to appear personally or otherwise to present data and information supporting his position.

"The Investigation Committee shall report its findings on every such case to the Governing Council directly or through the Disciplinary Committee with such recommendations as seem to it appropriate and consistent with the By-Laws and Rules of Professional Ethics of this Institute."

On motion by Philip W. Kniskern, duly seconded, and unanimously carried, the Governing Council approved the above resolution and directed that copies be mailed to Members of the Institute with a notification that the Council will, at its next meeting, take action to amend the By-Laws in accordance with the resolution.

Report of the International Federation Committee

Philip W. Kniskern, Chairman of the Committee representing the Institute on the Permanent Committee of the International Federation of Surveyors, reported briefly on contacts with the International Federation regarding surveys and proposed subjects for consideration at the forthcoming Conference of the Federation.

Committee on Organization and Establishment of a Trust Fund for Research

There was a discussion as to the advisability of proceeding immediately to establish a Permanent Trust Fund for Research. The consensus of opinion was that such a Fund should be established as soon as possible, and a medium created to accomplish this purpose. Upon a motion by Philip W. Kniskern, duly seconded and unanimously carried the President was authorized to appoint a committee to develop and submit a definite plan containing a liberal purpose clause, and providing for the receipt of funds from various sources, and control of such funds through a committee of five trustees. This plan is to be mailed to all Members thirty days in advance of the next meeting with a notification that the Governing Council will approve the establishment of such a program at that time.

President Reidy appointed the following on the Committee: Philip W. Kniskern, Philadelphia, Chairman; George W. Drennan, Detroit; and K. Lee Hyder, Milwaukee.

(At this point President Reidy retired from the room and Vice-President Ostendorf took the chair.)

Report of Disciplinary Committee

W. H. Ballard, Chairman of the Disciplinary Committee, presented the following written report for his committee, which, on motion of Philip W. Kniskern seconded by Arthur C. Houghton, and unanimously carried, was accepted and filed:

"Your Committee at a meeting held in Chicago, May 25, reviewed three cases which were presented to the preceding Committee during the latter part of 1935.

"One of these cases has been referred to Chas. J. Daly for further investigation.

"Another of these cases has been referred to your Chairman for further investigation.

"In respect to the third case, the Disciplinary Committee requests the Governing Council at this time to appoint a special committee to complete the investigation.

"The Disciplinary Committee also requests the Governing Council at this time, in at least a general way, to outline the scope of this Committee and designate its duties in order to determine whether this Committee is cast in the role of prosecutor, as a grand jury with power

to recommend trial, or as a Committee having final jurisdiction subject only to the approval or lack of approval by the Governing Council.

"This request is made to the Governing Council in accordance with Article III, Section 2, (b) of the By-Laws."

Signed: W. H. Ballard, Chairman
Chas. J. Daly, George W. Drennan,
John J. Wagner, James W. Cree.

Special Committee to investigate case No. 3 was duly elected by the Governing Council.

Philip W. Kniskern moved that the Committee be instructed that it has final jurisdiction in all cases formally presented to it subject to the vote or approval of the Governing Council, which motion was seconded by Arthur C. Houghton and unanimously carried. It was also suggested to the Committee that certain recommendations as to procedure in investigating cases before the Committee be set up and presented to the Governing Council for approval at its next meeting.

(At this point President Reidy returned to the Chair and Vice-President Ostendorf retired.)

Report of Treasurer

Arthur C. Houghton moved, seconded by E. L. Ostendorf, and unanimously carried, that the following financial statement presented by Mark Levy, Treasurer, as of April 30, 1936 be accepted and the Treasurer released from responsibility thereunder:

Financial Report American Institute of Real Estate Appraisers
as of
April 30, 1936
Mark Levy, Treas.

A. GENERAL

	Receipts	Actual	Budgeted for 1936
Admission Fee account	\$ 154.25	\$ 500.00	
Affiliate Dues—1936	827.92	945.84	
Affiliate Dues—1935	7.50	.....
Associate Dues—1936	111.25	335.00	
M.A.I. Dues—1936	5,650.72	6,333.61	
Member subscribers to Journal—1936	2,545.00	3,155.00	
Member subscribers to Journal—1935	5.00	.....
Non-Member Subscribers to Journal—1936	1,046.25	2,125.00	
Sale of Journal Re-prints	126.05	.....
Sale of Forms	4.20	.....
Sale of Terminology Books	56.00	200.00	
	\$10,534.14	\$13,594.45	
<i>Expenditures:</i>			
Administrative Service	\$ 2,333.33	\$ 7,000.00	
Admission Fee Account	356.91	500.00	
Dues Refunds & Transfers	47.50	100.00	

Journals	1,828.54	3,000.00
Miscellaneous	328.94	500.00
Postage	238.80	300.00
Printing & Stationery..	207.29	600.00
Travel	288.79	500.00
Services — Terminology Books	60.11	.....
	\$ 5,690.21	\$12,500.00
Excess of Receipts over Expenses....	\$ 4,843.93	
Less: Funds transferred to Administrative Reserve	4,666.67	
	\$ 177.26	
Plus: Surplus January 1, 1936.....	3,954.97	
	\$ 4,132.23	

Summary:

Cash & Certificate of Deposit.....	\$11,400.50
Less: Funds on Deposit.....	455.00
Less: Accounts Payable.....	781.50
Less: 1937 Dues Paid in 1936.....	15.83
Less: Administrative Reserve.....	4,666.67
Less: Educational Fund Reserve....	1,349.27*

\$ 4,132.23

* \$1,500.00 Transferred from Surplus by Governing Council to Educational Committee Fund — Expenses to date \$150.73.

Report of the Committee on Local Chapters

E. L. Ostendorf, Chairman of the Committee on Local Chapters, presented a report of progress which was unanimously accepted on a motion by Arthur S. Kirk seconded by Norman L. Newhall.

Report of the Special Committee on Revision of the Rules of Professional Ethics

A written report from Frederick M. Babcock, Chairman of a Special Committee on the revision of the Rules of Professional Ethics, was accepted on motion by Charles F. Curry, seconded by Arthur S. Kirk, and unanimously carried, with instructions that copies be furnished each member of the Institute asking for suggestions for further revision before final action is taken on the proposal at the next meeting of the Governing Council.

Annual Banquet at the New Orleans Convention

On motion by E. L. Ostendorf, seconded by Ralph V. Field, and unanimously carried it was agreed that the American Institute of Real Estate Appraisers hold an Annual Banquet in connection with the Annual meeting of the Institute in New Orleans this year.

Herbert U. Nelson spoke briefly on questions of interest to the American Institute of Real Estate Appraisers.

There being no further business the meeting adjourned at 4:30 p. m.

New Members

ADMITTED TO MEMBER GRADE

LEONARD M. COWLEY, PHOENIX, ARIZONA. Born in Bladen, Nebraska, 1899; salesman member of the Phoenix Real Estate Board; salesman in the firm of Cowley, Higgins and Delph Investment Co. of Phoenix, Ariz.; author and lecturer; A. B. from the University of Nebraska in 1922, with certificate in Journalism; Adjutant General of Arizona in 1929, holding state rank of Brigadier General; Past Director of Phoenix Chamber of Commerce; former secretary of the Board of Directors, Phoenix Public Library; formerly Real Estate Editor, *The Arizona Republican* (1923-1925); eight years experience in the appraising of real property, including homes, apartments, farms, industrial property and special purpose property; qualified in court as an expert on the value of residential property; has appraised for banks, Building & Loan Associations and Insurance Companies; experienced in supervision of residential construction; residential sales experience dates from 1925.

HAROLD W. JEWETT, OAKLAND, CALIFORNIA. Born in Marysville, Cal., August, 1884; owner H. W. Jewett Co., Broker member and director of Oakland Real Estate Board; professional territory covers Bay District and central Calif.; educational experience includes University of Southern Calif., real estate extension courses, and special courses in real estate appraising directed by James G. Stafford, M. A. I.; has had experience in teaching appraisal courses; 20 years experience in appraising real estate, including homes, business properties, industrial properties, office buildings; licensed real estate broker; qualified in court as expert valuator of residential and business properties; construction experience in the building of homes, store properties, and office buildings; nearly 30 years experience in residential, business, and industrial sales.

ARTHUR D. WALL, DENVER, COLORADO. Born in Winslow, Maine, February, 1871; in business under own name; actively engaged in appraising and purchasing land and rights-of-way for City and County of Denver, Water Department, City Attorney's Office, Department of Improvements and Parks; active member and past President, Denver Real Estate Exchange; Past President Colorado Association of Real Estate Boards; professional territory covers Colorado and adjoining states; lecturer and author; has taught appraising in local Real Estate or Appraisal Schools; 25 years' experience in appraising real estate, including the valuation of farms, ranches, water rights, and suburban properties; licensed real es-

tate broker; qualified in court from 1910 to date as an expert on the value of all types of real estate.

ERNEST STEPHEN ALLSOPP, LAKELAND, FLORIDA. Born in Newark, New Jersey, October, 1900; State Manager, Mortgage Loan Department, Prudential Insurance Co. of America; professional territory covers entire State of Florida; President, Warwick Realty Co., Winter Park, Florida; active member of Lakeland Real Estate Board; 10 years' experience in the appraising of real property; since February, 1929, has held present position appraising daily for Prudential Insurance Co., both on properties for sale and new mortgage loans; from 1923 to 1925 was connected with Credit Department of Farmers Loan & Trust Co., New York City; graduate of Newark Academy, Newark, N. J.; graduate of Wharton School of the University of Pennsylvania (B. S. degree), and of American Institute of Banking, N. Y. Chapter, N. Y. C.

GEORGE BECKER, CHICAGO, ILL. Born in Zhitomir, Russia, April, 1905; associated with Salk, Ward & Salk, of Chicago; member Chicago Real Estate Board; professional territory covers Cook County, Illinois; B. S. degree in Engineering, University of Illinois, 1925; Registered Structural Engineer, State of Illinois; since 1925 has designed and supervised construction of hotels, theaters, apartment buildings, etc.; has been appraisal director of Salk, Ward & Salk since 1932; eight years experience in the appraising of real property including the valuation of apartments, hotels, residences, bank buildings, theaters, etc.; qualified in Court as an expert on values of apartment buildings in 1934; has appraised properties for the Lake View Trust & Savings Bank.

FRED F. GARDNER, CHICAGO, ILLINOIS. Born in Rochester, Minnesota, March, 1887; Secretary to the Bills Corporation, Bills Securities and Bills Realty, Inc.; Vice-President and Director of Bills Management & Mortgage Corp.; member of the Society of Residential Appraisers; member Chicago Mortgage Bankers Association; active member Chicago Real Estate Board; professional territory covers Metropolitan Chicago; graduate of the Central College of Commerce, Chicago, majoring in real estate; nine years experience in the appraisal of real property, including the valuation of vacant, homes, apartments, stores, garages; licensed real estate broker in Chicago since 1928; qualified in court as an expert on the value of apartment properties; has appraised for the State Life of Illinois, Columbian National Life of Bos-

ton, Mass., in addition to appraisals for the various Bills Companies; experience in the construction of 19 bungalows; has sold all types of residential and apartment properties for the past ten years.

FRANCIS S. BAILEY, WORCESTER, MASS. Born in Danielson, Conn., July, 1897; employed eleven years by Maurice F. Reidy, Worcester, Mass.; member Worcester Real Estate Board; professional experience covers Massachusetts and various New England states; eleven years experience in appraising real property, including the valuation of all types of real estate; qualified in court in 1935 as an expert in the valuation of residential property; has appraised for John Hancock Mutual Life Insurance Co. and for banks; extensive residential sales experience.

J. GREGORY DRISCOLL, ST. LOUIS, MO. Born in St. Louis, 1898; Assistant Treasurer and Manager, Mortgage Loan Division, General American Life Insurance Company; active member of the St. Louis Real Estate Exchange; professional territory covers Detroit, Michigan, Minneapolis and St. Paul, Minnesota, Chicago, Illinois, St. Louis and Kansas City, Mo., Oklahoma City and Tulsa, Oklahoma, Fort Wayne, Indiana, Dallas, Houston, Fort Worth, Texas, etc.; graduated in Commerce and Finance School, St. Louis University; ten years experience as Manager of Mortgage Loan Department of Missouri State Life Insurance Company and General American Life Insurance Company; 11 years experience in the appraisal of real property, including residential, industrial, apartment, office, and other types of real estate.

ALFRED B. KISSACK, ST. LOUIS, MO. Born in St. Louis, Mo.; member, St. Louis Real Estate Exchange; Appraisal Engineer, Albert Wenzlick Real Estate Co.; Secretary and Treasurer, Real Estate Analysts, Inc., in charge of analyses and appraisals; professional territory covers St. Louis and surrounding Metropolitan area and Atlanta, Ga.; member American Society of Civil Engineers; 8 years experience in the appraising of real estate; Major in Engineers Corps during the World War, commanding Battalion in France in charge of construction of warehouses, railroads, etc.; appraisal experience includes valuation of bridges, railroad property, office buildings, residential properties, store properties, churches, apartment buildings, farms, subdivision properties, and garages.

RUDOLPH KRUGER, NEWARK, NEW JERSEY. Born in Boston, Mass., April, 1895; active member Newark Real Estate Board; professional territory covers Northern New Jersey; appraiser of real estate, architect and engineer; Vice-President, New Order-Equity Building & Loan Association; Director, Druggist Building & Loan Association; President, Newark Society of Architects;

member, American Institute of Architects; member, New Jersey Association of Professional Engineers and Land Surveyors; B. S. Degree in Architectural Engineering from University of Michigan; completed real estate appraising courses in Rutgers University; 10 years experience in the valuation of real estate, including the appraising of land, golf courses, residences, stores, apartments, industrial terminals, lodge buildings, etc.

AMEDEO GIORDANO, BRONX, NEW YORK. Born in New York City, February, 1902; Senior partner, A. Giordano Co.; active member Real Estate Board of the Bronx, Inc.; professional territory covers the Bronx; member also of the New York Real Estate Board, and the Bronx Board of Trade; A. B. Degree, Georgetown College, Washington, D. C.; LL. B. degree, Fordham University; has constructed several apartment buildings; does a large management business; more than eight years experience in the valuation of real property including the appraisal of apartments and residences.

CHARLES A. NEHRING, NEW YORK CITY. Born in New York, N. Y., June, 1896; Secretary, Treasurer, and Director of Nehring Brothers, Inc.; Director, Chas. E. Hauselt Holdings, Inc.; Director and Secretary, Lyndhurst Court, Inc.; Member of the Real Estate Board of New York and Real Estate Board of the Bronx; professional territory covers upper Manhattan and the Bronx; over 20 years experience in rental, sale and management of apartment and business properties; more than 10 years experience in the appraisal of real property, including valuation of stores, warehouses, apartments, garages, etc.; licensed real estate broker, state of New York; qualified in court as an expert on the value of apartment and business properties; has appraised for the Corn Exchange Bank Trust Co., New York Title Co., Bond & Mortgage Guarantee Corporation, Lawyers Title and Guarantee Co., Irving Trust Co., North River Savings Bank, Middletown Savings Bank, State Mortgage Commission, Superintendent of Insurance, Corporation Counsel, City of New York.

I. LINCOLN SEIDE, NEW YORK CITY. Born in New York City in February, 1888; real estate auctioneer and appraiser; professional territory covers New York City and suburbs; member Real Estate Board of New York (individual member N. A. R. E. B.); member Real Estate Auctioneers' Association; formerly auctioneer for the U. S. Marshal for the Southern District of N. Y.; eighteen years experience in appraising real estate including the appraisal of apartment houses, business properties, estates, acreage, residences, industrial property; 31 years experience in real estate business; experience as manager of hundreds of

buildings of various types including tenements, apartment houses, stores, lofts, and office buildings.

EDMUND T. COLLINS, TOLEDO, OHIO. Born June, 1876, in Toledo, Ohio; Secretary of The Second Mortgage Securities Co., and The Collins Building Co.; active member and past president of the Toledo Real Estate Board; professional territory covers Toledo and vicinity; lecturer and author; more than 15 years experience in the appraisal of residential homes, apartments, stores, office buildings and industrial property, farms, and special purpose property; licensed real estate broker, qualified in court as an expert in the valuation of residential and commercial properties in 1930; has built, remodeled and sold real estate for the past 20 years; has appraised for life insurance companies, banks, title and trust companies, and building and loan associations.

JOHN R. SCHACKNE, TOLEDO, OHIO. Born in Columbus, Ohio, 1883; active broker member Toledo Real Estate Board; realtor, appraiser, and property manager; Past President Lucas County Tax Payers Association; Past President Toledo Investment Co.; professional territory covers half of Northern Ohio; author and lecturer, has taught

real estate appraising in Y. M. C. A. classes; 15 years appraisal experience including appraisal of farms, homes, industrial properties, apartment properties, hotels, office buildings and store properties; licensed real estate broker; qualified in court and by the Ohio and Michigan Boards as an expert on the value of various types of real estate, has appraised for insurance companies, banks, trust companies, building and loan associations; construction experience includes building of mercantile and large apartment houses; 20 years experience in residential sales.

E. DALE FISHER, LEWISTOWN, PENN. Born in Lewistown, Pa., February, 1896; active broker member of the Lewistown Real Estate Board; President, E. Dale Fisher and Associates; appraisal experience extends over a period of more than 20 years and includes the valuation of vacant lands, farms, dwellings, business property, garages, office buildings; licensed real estate broker, state of Pennsylvania; qualified in Court as an expert on the value of dwellings, industrial property, vacant lands, farms; has appraised for Russell National Bank, State Capital Savings & Loan Association; has worked with contractors on construction projects at different times over a period of many years; 25 years experience in residential sales.

ADMITTED TO ASSOCIATE MEMBER GRADE

Article II, Section 3, Sub-Section C.—General

JOHN J. SAVAGE, SPRINGFIELD, ILLINOIS. Born in Lincoln, Illinois, February, 1906; Staff Valuator, Southern District of Illinois Federal Housing Administration; professional territory covers 86 counties in Southern Illinois; individual member of N. A. R. E. B.; City Treasurer in Lincoln, Ill., 1931 to 1933; fee and district appraiser for Home Owners Loan Corp., 1933 to 1935; taught appraisal courses for Springfield

Chapter of U. S. Building & Loan League in the spring of 1935; 11 years experience in real estate appraising, including the valuation of stores, office buildings, apartment buildings and single family dwellings; partner in the Dean J. Harris Agency; qualified in court as an expert in the valuation of residential property in 1933; has appraised for The First National Bank, Lincoln, Illinois; for the Lincoln Savings & Loan Association; Logan County Building and Loan Association; eight years experience in residential sales.



American Institute of Real Estate Appraisers

MAURICE F. REIDY.....President
2 Foster St., Worcester, Mass.
E. L. OSTENDORF.....Vice-President
610 Nat'l City Bank Bldg., Cleveland, Ohio
GEORGE L. SCHMUTZ.....Vice-President
8703 Santa Monica Blvd., Los Angeles, Calif.
K. LEE HYDER.....Vice-President
525 E. Michigan Ave., Milwaukee, Wis.
J. ALVIN REGISTER.....Vice-President
114 Graham Bldg., Jacksonville, Fla.
RALPH D. BAKER.....Vice-President
924 Broadway, Camden, N. J.
WM. H. BALLARD.....Vice-President
45 Milk St., Boston, Mass.
R. W. PATTON.....Vice-President
614 Travis Bldg., San Antonio, Texas
WM. A. EASTMAN.....Vice-President
414 University St., Seattle, Wash.
HERBERT U. NELSON.....Secretary
22 W. Monroe St., Chicago, Ill.
MARK LEVY.....Treasurer
7 S. Dearborn St., Chicago, Ill.
HARRY GRANT ATKINSON.....Director of Activities
22 W. Monroe St., Chicago, Ill.

Governing Council

Term Expiring December 31, 1938

Maurice F. Reidy, Worcester, Mass.
J. Alvin Register, Jacksonville, Fla.
George L. Schmutz, Los Angeles, Calif.
Ralph V. Field, Galesburg, Ill.

Newton C. Farr, Chicago, Ill.
George W. Drennan, Detroit, Mich.
Henry S. Miller, Dallas, Texas.
Maurice R. Massey, Philadelphia, Pa.
Frank McCurdy, Brooklyn, N. Y.

Term Expiring December 31, 1937

A. C. Houghton, Washington, D. C.
W. H. Ballard, Boston, Mass.

Hill Ferguson, Birmingham, Ala.

Arthur S. Kirk, Des Moines, Iowa.

Ralph D. Baker, Camden, N. J.

R. W. Patton, San Antonio, Texas.

W. A. Eastman, Seattle, Wash.

Edward Eagan, Syracuse, N. Y.

James J. Grogan, Cincinnati, Ohio.

Term Expiring December 31, 1936

K. Lee Hyder, Milwaukee, Wis.

Norman L. Newhall, Minneapolis, Minn.

E. L. Ostendorf, Cleveland, Ohio.

Fenwick B. Small, Brooklyn, N. Y.

Frank H. Taylor, East Orange, N. J.

Charles F. Curry, Kansas City, Mo.

Charles J. Daly, St. Louis, Mo.

D. Earl Wilson, Miami, Fla.

Ex-Officio Members

Mark Levy, Chicago, Ill.

Philip W. Kniskern, Philadelphia, Pa.

Joseph B. Hall, St. Louis, Mo.

Harry E. Gilbert, Baltimore, Md.

Representing Board of Directors, N. A. R. E. B.

Joseph Laronge, Cleveland, Ohio.

Officers of Local Chapters

New Jersey Chapter Number 1

President—Edward J. Maher, Newark
Vice-President—William W. Chalmers, Camden
Treasurer—John K. Leeds, Elizabeth
Secretary—Franklin J. Hannon, Newark

Florida Chapter Number 2

President—C. Walton Rex, Orlando
Vice-President—Harry J. Wood, Fort Myers
Secretary—John L. Wright, Lakeland
Treasurer—John B. Green, St. Petersburg

Ohio Chapter Number 3

President—W. F. Voges, Akron
Vice-President—Joseph Laronge, Cleveland
Treasurer—Warren L. Morris, Cleveland
Secretary—Albert J. Mayer, Cincinnati

New York City Chapter Number 4

President—John R. Hoyt, Manhattan
Vice-Presidents—Wm. F. MacDermott, Jamaica
George H. Gray, Brooklyn
Irving I. Rosenbaum, Manhattan
Treasurer—Edward C. Heald, Yonkers
Secretary—Dalton G. DeWitt, Manhattan

California Chapter Number 5

President—Nathan Libott, 6253 Hollywood Blvd.,
Hollywood
Vice-President—T. F. Merrick, Heartwell Bldg.,
Long Beach

Secretary and Treasurer—John W. Salmon, 2912
Brighton Ave., Los Angeles

Illinois Chapter Number 6

President—Ward T. Huston, Chicago
Vice-President—Oscar Soderquist, Waukegan
Treasurer—Kenneth Calhoun Brown, Chicago
Secretary—Walter R. Kuehnle, Chicago

New England Chapter Number 7

President—Everett N. Slade, Fall River, Mass.
Vice-President—Charles T. Lincoln, New Haven,
Conn.
Secretary-Treasurer—W. H. Ballard, Boston, Mass.

Washington State Chapter Number 8

President—A. C. Newell, Seattle
Vice-President—Walter G. McLean, Seattle
Secretary—J. H. Sparkman, Seattle
Treasurer—Charles P. Burnett, Seattle

Philadelphia Chapter Number 9

President—Philip W. Kniskern, Philadelphia
Vice-President—Frank P. Felton, Jr., Philadelphia
Vice-President—Robert J. Nash, Philadelphia
Secretary—S. Craig Kane, Jr., Philadelphia
Treasurer—C. Harry Johnson, Philadelphia

Michigan Chapter Number 10

President—Paul A. Kern, Pontiac
Vice-President—Charles H. Warden, Grand Rapids
Secretary-Treasurer—Henry N. Johnson, Detroit

Committees

Standing Committees

(See pages 340 to 344, Roster of Members, for addresses.)

ADMISSIONS COMMITTEE

Ralph V. Field, Galesburg, Ill., Chairman.
Hill Ferguson, Birmingham, Ala.
Leonard Downie, Washington, D. C.
D. Earl Wilson, Miami, Fla.
Percy E. Wagner, Chicago, Ill.
Herman O. Walther, Chicago, Ill.
Wm. E. Ferguson, Baltimore, Md.
George C. Sexauer, Detroit, Mich.
E. F. Pierson, Kansas City, Mo.
Morris Goldfarb, Perth Amboy, N. J.
Herman A. Acker, Bronx, New York.
Albert J. Mayer, Cincinnati, Ohio.
Warren L. Morris, Cleveland, Ohio.
E. L. Ostendorf, Cleveland, Ohio.
Richard J. Seltzer, Philadelphia, Pa.
Henry S. Miller, Dallas, Texas.
Charles P. Burnett, Seattle, Washington.

BY-LAWS COMMITTEE

Philip W. Kniskern, Philadelphia, Pa., Chairman.
Charles B. Shattuck, Los Angeles, Calif.
Arthur C. Houghton, Washington, D. C.
Charles P. Glover, Tampa, Fla.
S. E. Kazdin, Manhattan, New York.
Morton G. Thalhimer, Richmond, Va.

DISCIPLINARY COMMITTEE

W. H. Ballard, Boston, Mass., Chairman.
Ivan A. Thorson, Los Angeles, Calif.
Graham Aldis, Chicago, Ill.
John J. Wagner, Cedar Rapids, Iowa.
George W. Drennan, Detroit, Mich.
Charles J. Daly, St. Louis, Mo.
James W. Cree, Jr., Pittsburgh, Pa.

EDUCATION AND RESEARCH COMMITTEE

K. Lee Hyder, Milwaukee, Wis., Chairman.
George L. Schmutz, Los Angeles, Calif., Vice-Chairman.
Thurston H. Ross, Los Angeles, Calif.
Louis Arduouin, South Gate, Calif.
Frederick M. Babcock, Washington, D. C.
Leonard Downie, Washington, D. C.
Ayers J. duBois, Washington, D. C.
Herman O. Walther, Chicago, Ill.
Norman W. Kenny, Boston, Mass.
Isadore Quintana, Hackensack, N. J.
E. J. Maier, Newark, N. J.
Harry J. Stevens, Newark, N. J.
Morris Goldfarb, Perth Amboy, N. J.
Frank M. McCurdy, Brooklyn, N. Y.
Sam W. Florence, New York, N. Y.
Raymond T. Cragin, Cleveland, Ohio.
Fred A. Bond, Philadelphia, Pa.
W. G. Burchfield, Houston, Texas.

ETHICS COMMITTEE

Newton C. Farr, Chicago, Ill., Chairman.
George H. Coffin, Jr., Los Angeles, Calif.
Blon T. Wheeler, Springfield, Mass.
George W. Drennan, Detroit, Mich.
W. W. Chalmers, Camden, N. J.
John R. Hoyt, New York, N. Y.
W. A. Eastman, Seattle, Wash.

FINANCE COMMITTEE

Joseph B. Hall, St. Louis, Mo., Chairman.
Morton J. Luchs, Washington, D. C.

Mark Levy, Chicago, Ill.

Norman L. Newhall, Minneapolis, Minn.
Bracton Goldstone, New York, N. Y.

LOCAL CHAPTERS COMMITTEE

E. L. Ostendorf, Cleveland, Ohio, Chairman.
Nathan Libott, Los Angeles, Calif.
Arthur C. Houghton, Washington, D. C.
Frank R. Jewett, Vero Beach, Fla.
Adrian McCune, Miami, Fla.
Henry George Slavik, Chicago, Ill.
Norman W. Kenny, Boston, Mass.
Henry N. Johnson, Detroit, Mich.
Walter S. Palmer, Grand Rapids, Mich.
Joseph W. Hannauer, St. Louis, Mo.
Edward J. Maier, Newark, N. J.
Joel L. Schlesinger, Newark, N. J.
James F. Matthews, Brooklyn, N. Y.
William F. MacDermott, Jamaica, Long Island, N. Y.
Lewis R. Smith, Cincinnati, Ohio.
Frank P. Felton, Jr., Philadelphia, Pa.
J. W. Cree, Jr., Pittsburgh, Pa.
W. G. Burchfield, Houston, Texas.
Walter G. McLean, Seattle, Wash.
A. C. Newell, Seattle, Wash.

MEMBERSHIP COMMITTEE

J. Alvin Register, Jacksonville, Fla., Chairman.
James G. Stafford, Oakland, Calif.
Henry Musch, Jr., Hamden, Conn.
Leonard Downie, Washington, D. C.
F. Eliot Middleton, Washington, D. C.
Adrian McCune, Miami, Fla.
Bryan M. Grant, Atlanta, Ga.
Kenneth Calhoun Brown, Chicago, Ill.
George A. Kuhn, Indianapolis, Ind.
Willard L. Frost, Sioux City, Iowa.
J. C. McNaughton, Hutchinson, Kan.
L. Sidney Jenkins, Louisville, Ky.
T. S. Neal, Shreveport, La.
Charles H. Steffey, Baltimore, Md.
John C. Kiley, Boston, Mass.
Henry N. Johnson, Detroit, Mich.
Richard W. Northup, Duluth, Minn.
J. O. Manning, Jackson, Miss.
George M. Bliss, Kansas City, Mo.
C. C. Kimball, Lincoln, Neb.
John J. Berry, Newark, N. J.
John R. Hoyt, New York, N. Y.
B. H. Sumner, Asheville, N. C.
Charles F. Johnson, Columbus, Ohio.
J. W. Cree, Jr., Pittsburgh, Pa.
James Devine, Providence, R. I.
W. H. Prince, Johnson City, Tenn.
R. W. Patton, San Antonio, Texas.
Morton G. Thalhimer, Richmond, Va.
J. Arthur Younger, Seattle, Wash.
T. O.J. Wilson, Bluefield, W. Va.
Cyril R. DeMara, Toronto, Ontario, Canada.

PUBLIC RELATIONS COMMITTEE

Ralph D. Baker, Camden, N. J., Chairman.
Frank B. Clark, Birmingham, Ala.
T. F. Merrick, Long Beach, Calif.
A. L. Layden, Los Angeles, Cal.
George B. Horan, Waterbury, Conn.
A. C. Houghton, Washington, D. C.
John B. Green, St. Petersburg, Fla.
B. M. Grant, Atlanta, Ga.
Paul C. Loebel, Chicago, Ill.
George A. Kuhn, Indianapolis, Ind.

W. L. Frost, Sioux City, Iowa.
 J. C. McNaghten, Hutchinson, Kansas.
 R. S. Whitten, Shreveport, La.
 John C. Percival, Lowell, Mass.
 A. C. Hofrichter, Baltimore, Md.
 John G. Emery, Grand Rapids, Mich.
 Leonard P. Reaume, Detroit, Mich.
 J. F. Sutherland, Minneapolis, Minn.
 J. O. Manning, Jackson, Miss.
 W. M. Butts, St. Louis, Mo.
 L. C. Sholes, Omaha, Nebr.
 George H. Gray, Brooklyn, N. Y.
 S. T. Henderson, Charlotte, N. C.
 Lewis R. Smith, Cincinnati, Ohio.
 C. A. King, Tulsa, Oklahoma.
 Maurice R. Massey, Philadelphia, Pa.
 Hal Forrester Coombs, Providence, R. I.

George W. Person, Memphis, Tenn.
 J. W. Graham, Nashville, Tenn.
 R. W. Patton, San Antonio, Texas.
 Henry S. Raab, Richmond, Va.
 Wm. A. Eastman, Seattle, Wash.
 T. O'J. Wilson, Bluefield, W. Va.
 Henry Bush, Madison, Wisc.

REPRESENTATIVES ON THE PERMANENT COMMITTEE OF THE INTERNATIONAL FEDERATION OF SURVEYORS

Philip W. Kniskern, Philadelphia, Pa., Chairman.
 Maurice F. Reidy, Worcester, Mass.
 Harry E. Gilbert, Baltimore, Md.
 E. L. Ostendorf, Cleveland, Ohio.
 Arthur C. Houghton, Washington, D. C.

Special Committees

REPRESENTATIVES ON THE GENERAL EDUCATION COMMITTEE OF THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

K. Lee Hyder, Milwaukee, Wis.
 Newton C. Farr, Chicago, Ill.

COMMITTEE TO NOMINATE GOVERNING COUNCILLORS

Harry E. Gilbert, Baltimore, Md., Chairman.
 Philip W. Kniskern, Philadelphia, Pa.
 Joseph B. Hall, St. Louis, Mo.
 Nathan H. Libott, Los Angeles, Calif.
 Leon E. Todd, Camden, N. J.
 J. W. Cree, Jr., Pittsburgh, Pa.

COMMITTEE TO NOMINATE OFFICERS

Arthur C. Houghton, Washington, D. C., Chairman.
 W. H. Ballard, Boston, Mass.
 Arthur S. Kirk, Des Moines, Iowa.

TAX PROCEDURE COMMITTEE

Warren L. Morris, Cleveland, Ohio, Chairman.
 Ivan A. Thorson, Los Angeles, Calif.
 Charles H. Tompkins, Washington, D. C.
 Harry S. Cutmore, Chicago, Ill.
 Harry E. Gilbert, Baltimore, Md.
 John A. Linnett, Newark, N. J.



Dominick Dunn (370)	1330 Morse Ave.
Newton C. Farr (400)	140 S. Dearborn St.
Fred F. Gardner (530)	134 So. LaSalle St.
Harry Goldstine (350)	6015 Lincoln Ave.
Earl George Gubbins (383)	407 S. Dearborn St.
Arthur B. Hall (403)	140 S. Dearborn St.
John P. Hooker (52)	1411 1st Natl. Bk. Bldg.
A. K. Hornof (173)	110 S. Dearborn St.
Ward T. Huston (209)	2526 S. Wabash Ave.
Isaac Keim (324)	4865 Broadway
Arthur Kruegel (341)	140 S. Dearborn St.
Walter R. Kuehnle (124)	100 N. LaSalle St.
J. Alton Lauren (442)	7 S. Dearborn St.
Mark Levy (9)	111 W. Washington St.
Paul C. Loeb (399)	120 S. LaSalle St.
Ernest H. Lyons (195)	William C. McLennan (414).....6675 Northwest Hwy.
William E. Manierre (402)	5 S. Wabash Ave.
Orlo O. Montague (514)	1374 First Natl. Bldg.
Donald T. Morrison (382)	100 North LaSalle St.
William E. Mosby (297)	8032 Cottage Grove Ave.
Hyde W. Perce (406)	40 N. Dearborn St.
Lester W. Porter (407)	231 S. LaSalle St.
Geo. R. Quin (191)	36 S. State St.
Gilbert H. Scribner (401)	1st Natl. Bk. Bldg.
Henry George Slavik (301)	10 S. LaSalle St.
Paul Steinbrecher (409)	7 S. Dearborn St.
John Milton Trainer (404)	30 N. Michigan Ave.
Percy E. Wagner (318)	134 N. LaSalle St.
Herman O. Walther (363)	111 S. Dearborn St.
J. Soule Warterfield (120)	8 S. Dearborn St.
Albert H. Wetten (408)	141 W. Jackson Blvd.
Galesburg	
Ralph V. Field (168)	203 Bk. of Galesburg Bldg.
Joliet	
William W. Mollan (288)	405 D'Arcy Bldg.
Peoria	
James H. Finnegan (428)	415 Peoria Life Bldg.
Waukegan	
Leo Dailey (388)	2 So. County St.
Oscar Soderquist (125)	22 Maple Ave.

INDIANA

East Chicago	
Leonard C. Smith (440)	4534 Indianapolis Blvd.
Fort Wayne	
Claude L. Baker (129)	R. R. 2
Gary	
Charles D. Davidson (244)	504 Broadway
J. R. Davidson (123)	504 Broadway
Hammond	
Samuel C. Ennis (203)	1st Trust Bldg.
Indianapolis	
George A. Kuhn (35)	706 Guaranty Bldg.
Frank B. McKibbin (96)	1154 Consolidated Bldg.
John W. Roberts (448)	428 Illinois Bldg.

IOWA

Cedar Rapids	
John J. Wagner (266)	408 American Trust Bldg.
Des Moines	
Arthur S. Kirk (188)	900 Grand Ave.
Sioux City	
Willard L. Frost (21)	Security Bank Bldg.

KANSAS

Hutchinson	
J. C. McNaghten (116)	1st Natl. Bk. Bldg.
Topeka	
David Neiswanger (426)	115 W. 6th Ave.

KENTUCKY

Louisville	
I. Sidney Jenkins (334)	Louisville Trust Bldg.
Paul F. Semonin, Sr. (359)	321 Starks Bldg.

LOUISIANA

Shreveport	
T. S. Neal (224)	330 Ricou-Brewster Bldg.
R. S. Whitten (351)	210 Milam St.

MARYLAND

Baltimore	
Oregon Milton Dennis (132)	21 New Amsterdam Bldg.
W. E. Ferguson (47)	100 E. Pleasant St.
Harry E. Gilbertson (18)	2 E. Lexington St.
Albert C. Hofrichter (162)	2 E. Lexington St.
John E. McGovern (316)	H.O.L.C.-Equitable Bldg.
Chas. H. Steffey (88)	336 N. Charles St.

MASSACHUSETTS

Boston	
W. H. Ballard (41)	45 Milk St.
Arthur B. Brooks (509)	40 Central St.
Edwin Deering Brooks (510)	18 Tremont St.
Edward F. Cassell (122)	18 Tremont St.
George L. DeBlois (505)	11 Pemberton Square
James D. Henderson (169)	209 Washington St.
Norman W. Kenny (10)	82 Devonshire St.
John C. Kiley (397)	45 Bromfield St.
Arthur N. Maddison (504)	11 Pemberton Square
Robert C. Nordblom (336)	18 Oliver St.
George S. Parker (502)	87 Milk St.
Stephen W. Sleeper (508)	31 Milk St.
Robert S. Wayland (506)	10 State St.

Brockton	
Charles H. McKenney, Jr. (423)	106 Main St.

Fall River	
J. Frederick Beckett (167)	49 Purchase St.
Myer Markell (165)	160 Bank St.
Everett N. Slade (53)	57 N. Main St.

Lowell	
John C. Percival (233)	36 John St.
Springfield	
Henry M. Clark (287)	100 Broadway
Bion T. Wheeler (339)	1562 Main St.

Worcester	
Francis S. Bailey (524)	2 Foster St.
Charles A. Kabley (501)	340 Main St.
Maurice F. Reidy (8)	2 Foster St.
Detroit	

MICHIGAN

Detroit	
Judson Bradway (392)	533 Majestic Bldg.
Matthew Carey (389)	2149 Union Guardian Bldg.
George W. Drennan (358)	300 Penobscot Bldg.
Guy S. Greene (394)	300 Lafayette Bldg.
Henry N. Johnson (390)	300 Penobscot Bldg.
Alfred W. Palmer (312)	1920 Union Guardian Bldg.
Edmund T. Paterson (385)	3050 E. Grand Blvd.
Leonard P. Reaume (393)	2150 Buhl Bldg.
George C. Sexauer (395)	2150 Buhl Bldg.
William W. Tanney (434)	9061 W. Outer Drive
Clarence S. Vaughn (422)	2103 First National Bank Bldg.
Carl S. Wells (391)	2706 Eaton Tower

Grand Rapids	
J. G. Lloyd Alexander (246)	616 Murray Bldg.
Isaac Blandford (234)	100 Federal Square Bldg.
Leon T. Closterhouse (247)	American Home Security Bank
John Garfield Emery (304)	205 Federal Square Bldg.
Harry J. Fuller (235)	The Michigan Trust Co.
Walter S. Palmer (193)	104 Federal Square Bldg.
Arent Van Stensel (248)	1006 G. R. Savings Bank Bldg.
Charles H. Warden (229)	535 Michigan Trust Bldg.

Lansing	
Edward G. Hacker (291)	228 S. Capitol Ave.
Pontiac	

Paul A. Kern (134)	1st Natl. Bk. Bldg.
MINNESOTA	

Duluth	
Richard W. Northup (379)	17 Phoenix Bldg.
Minneapolis	
Fred L. Chapman (441)	115 S. 5th St.
Norman L. Newhall (32)	519 Marquette Ave.
Edwin L. Somerville (30)	519 Metropolitan Bank Bldg.
J. Frederick Sutherland (331)	1477 Northwestern Bk. Bldg.

MISSISSIPPI

Jackson
J. O. Manning (299).....3012 N. State St.

MISSOURI

Clayton
Günther Meier (319).....18 N. Meramec
Joplin
Rolla E. Stephens (264).....711 Virginia Ave.
Kansas City
George M. Bliss (360).....17 E. 10th St.
C. F. Curry (345).....921 Baltimore Ave.
E. F. Pierson (289).....311 Commerce Bldg.

St. Louis
W. C. Bernard (91).....317 N. 11th St.
William W. Butts (93).....803 Chestnut St.
Herbert O. Byrd (302).....818 Chestnut St.
Charles J. Daly (94).....801 Chestnut St.
Otto J. Dickmann (225).....623 Chestnut St.
Chester A. Dougherty (249).....109 N. 7th St.
J. Gregory Driscoll (528).....1501 Locust St.
John H. Farish (201).....713 Chestnut St.
Grover Godwin (418).....913 Ambassador Bldg.
Joseph B. Hall (2).....1311 S. 39th St.
Joseph W. Hannauer (15).....811 Chestnut St.
Alfred B. Kissack (525).....915 Olive St.
Curt C. Mack (449).....714 Chestnut St.
Monroe H. Rodemyer (218).....109 N. 8th St.
N. S. Wood (131).....709 Chestnut St.

NEBRASKA

Lincoln
C. C. Kimball (381).....228 Stuart Bldg.
Omaha
C. D. Glover (67).....913 City Natl. Bldg.
Lewis C. Sholes (23).....305 Paterson Bldg.
Clinton B. Stuht (33).....Aquila Court Bldg.

NEW JERSEY

Atlantic City
Maurice A. Kelley (325)....20 S. Tennessee Ave.
Butler
Frank B. Fay, Jr. (171).....Fayson Lake
Camden
Ralph D. Baker (60).....924 Broadway
W. W. Chalmers (63).....4th & Federal Sts.
J. William Markeim (86).....4th & Federal Sts.
Abraham J. Rosenfeld (218).....114 N. Broadway
Leon E. Todd (340).....2623 Westfield Ave.
Philip Zinman (95).....333 Arch St.
East Orange
Frank H. Taylor (6).....520 Main St.
Harry A. Taylor (108).....520 Main St.
Elizabeth
John K. Leeds (99).....286 N. Broad St.
B. B. Miller (58).....215 Broad St.
Burton Thompson (43).....18 W. Jersey
Max Tieger (112).....207 Broad St.

Hackensack
Isidoro Quintana (78).....Court House Square
Jersey City
George E. Dugan (236).....86 Manhattan Ave.
Percy A. Gaddis (22).....30 Journal Square Bldg.
D. E. C. Somers (175).....700 Bergen Ave.
R. E. Thompson (419).....Centl. R. R. of N. J. Term.
Linden
John Fedor (65).....540 S. Wood Ave.
Newark
Murray Apfelbaum (38).....78 Broad St.
John J. Berry (56).....982 Broad St.
Jos. L. Feibleman (66).....17-19 William St.
George Goldstein (413).....972 Broad St.
Franklin Hannoch (49).....14 Park Place
Louis Herman (70).....60 Park Place
Charles Frederick Kraemer (366).....776 Broad St.
Rudolph Kruger (516).....11 Hill St.
John A. Linnett (85).....29 Elizabeth Ave.
E. J. Maler (75).....988 Broad St.
J. K. Powell (77).....1060 Broad St.
Joel L. Schlesinger (87).....31 Clinton St.
Harry J. Stevens (200).....478 Central Ave.

New Brunswick

Jas. A. O'Connell (186).....392 George St.

Newton
A. N. Lockwood (433).....17 Main St.

Ocean City
Elmer Jackson Pearl (330).....810 Ocean Ave.

Paterson
Joseph R. Lambert (443).....20-22 Church St.

Plainfield
William G. McDowell (446).....152 North Ave.

Perth Amboy
Morris Goldfarb (109).....265 Madison Ave.

Ridgewood
Frederick A. Tector (364).....1 E. Ridgewood Ave.
Samuel S. Walstrum (106).....Ridgewood

Rutherford
Charles A. Van Winkle (113).....1 & 2 Station Sq.
Theodore Van Winkle (117).....1 Station Sq.

Union City
Edward McDermott (511).....582 Bergenline

NEW MEXICO

Albuquerque
Joseph P. Deasy (377).....122 So. 3rd St.

NEW YORK

Buffalo
A. P. Allingham (3).....63 Niagara St.
P. V. Bowen (141).....1006 Ellicott Sq.
Walter W. Cohn (81).....155 Pearl St.

Mechanicville
Franz H. Moak (40).....37 N. Main St.

Metropolitan New York

Brooklyn

Stephen F. Barrera (133).....191 Joralemon St.
George Baur (170).....2609 Clarendon Rd.
Joseph William Catharine (503).....
James B. Fisher (57).....149 Pierrepont St.
George H. Gray (17).....310 Ashland Place
Bernard F. Hogan (29).....451 5th Ave.
Arthur J. Horton (183).....1214 Flatbush Ave.
George S. Horton (184).....59 Lafayette Ave.
Frank M. McCurdy (39).....158 Remsen St.
James F. Matthews (76).....215 Montague St.
Charles W. Morrison (270).....35 Pierrepont St.
M. C. O'Brien (190).....798 Nostrand Ave.
Charles Partridge (92).....397 Flatbush Ave.
Lewis H. Pounds (128).....32 Court St.
Fenwick B. Small (31).....1124 Myrtle Ave.
R. W. Walden (89).....162 Remsen St.

Bronx

Herman A. Acker (279).....318 E. Kingsbridge Rd.
Amedeo Giordano (515).....2488 Grand Concourse
Samuel E. McRickard (292).....400 E. Fordham Rd.

Manhattan

Edward J. Crawford (373).....225 Broadway
Sam W. Florence (206).....2700 Woolworth Bldg.
Howard Geoghegan (512).....51 Chambers St.
Dalton Granger De Witt (315).....22 W. 48th St.
A. N. Gitterman (45).....45 E. 49th St.
Bracton Goldstone (68).....10 E. 40th St.
Frank D. Hall (159).....393 7th Ave.
John R. Hoyt (290).....17 E. 42nd St.
Robert Huntley (214).....67 Liberty St.
S. E. Kazdin (269).....70 Pine St.
John J. McCormick (445).....51 Chambers St.
Clarence C. Merritt (357).....50 E. 42nd St.
James R. Murphy (437).....217 Broadway
Henry Musch Jr. (157).....330 W. 42nd St., c/o HOLC
Charles A. Nehring (521).....1441 St. Nicholas Ave.
Irving I. Rosenbaum (179).....384 Broadway
L. Lincoln Seide (526).....220 Broadway
David Vogel (368).....150 Broadway

Nassau County

Richard T. Childs (273).....222 Front St., Mineola

Queens County

Armand Brunswick (327).....90-26 161st St., Jamaica
 William F. MacDermott (198).....89-70 162nd St., Jamaica
 Axel J. Swenson (272).....41-27 29th St., Long Island City

Westchester County

Robert A. Anderson (259).34 E. 1st St., Mt. Vernon
 Stephen L. Angell (220).30 E. Parkway, Scarsdale
 Vernon N. Bailey (322).162 Main St., White Plains
 Edward C. Heald (222).....20 S. Broadway, Yonkers
 Edward H. Hufnagel (250).....10 So. 4th St.
 Albert W. Lockyer (294).....Depot Plaza, White Plains
 Paul Wegener (90).....114 Broadway, Yonkers
 Edward M. West (305).....1 Martine Ave., White Plains

Rochester

Abraham Berghash (219)....130 Clinton Ave., S.
Schenectady
 Wm. Garner Bee (415).....277 State St.
Syracuse
 James H. Dawley (333).....121 E. Genesee St.
 Edward Eagan (271).204 Starrett-Syracuse Bldg.

NORTH CAROLINA

Asheville
 B. H. Sumner (332).....Asheville
Charlotte
 S. T. Henderson (20).....P. O. Box 1128

OHIO

Akron
 John C. Kyle (102).....520 S. Firestone Blvd.
 Fred E. Smith (298).....608 Broad Blvd., Cuyahoga Falls
 W. F. Voges (105).....1109 S. Main St.
Alliance
 L. D. Scranton (100).....341 E. Main St.
Canton
 Mark Hambleton (146).....417 Mellett Bldg.
 William J. Uebelhart (97).....419 Mellett Bldg.
 A. Ray Walters (439).....524 Renkert Bldg.
Cincinnati
 Howard R. Burgess (176).....104 Neave Bldg.
 Fred Droege, Jr. (154).....104 Neave Bldg.
 J. George Ege (335).....3040 Urwiler Ave.
 James W. Farrell (149).....S. W. Cor. 5th & Main
 John H. Frey (156).....7 Navara Apts., Sta. D
 James J. Grogan (180).S. W. Cor. 5th & Main Sts.
 Albert J. Mayer (204).....1515 1st Natl. Bk. Bldg.
 P. Lincoln Mitchell (181).....S. W. Cor. 5th & Main Sts.
 C. Stott Noble (202).....3428 Slettenius
 Michael J. O'Byrne (429).....4th and Vine St.
 Russell Price (152).....S. W. Cor. 5th & Main Sts.
 Walter S. Schmidt (111).S. W. Cor. 5th & Main Sts.
 Lewis R. Smith (139).....409 American Bldg.
 John B. Spilker (155).....104 Neave Bldg.
 L. F. Steele (310).....209 W. 7th St.

Cleveland

Talmage D. Auble (262).....15509 Madison Ave.
 Robert F. Berwald (300).....1220 Williamson Bldg.
 Ben B. Beyer (34).....1425 Williamson Bldg.
 James G. Bingham (328).....1227 Williamson Bldg.
 Raymond T. Cragin (282).....825 Natl. City Bk. Bldg.
 W. J. Crawford, Jr. (323).....720 Cuyahoga Bldg.
 Victor J. Free (431).....1105 Chester Ave.
 Walter R. Granger (285).....310 Hippodrome Bldg.
 Joseph J. Haas (164).....200 Marshall Bldg.
 Joseph Laronge (103).....600 Union Trust Bldg.
 Edwin H. McIntosh (283).....1029 Society for Savings Bldg.
 Warren L. Morris (251).....420 Natl. City Bk. Bldg.
 E. L. Ostendorf (14).....610 Natl. City Bank Bldg.
 Carl A. Palmer (286).....850 Euclid Ave.
 Max J. Rudolph (281).....1105 Chester Ave.
 Carlton Schultz (37).....1223 Schofield Bldg.

Alexander S. Taylor (142)....1920 Union Tr. Bldg.
 V. C. Taylor, II (153)....1930 Union Trust Bldg.
 Wm. J. Van Aken (284).....1715 Euclid Ave.

Columbus

Charles F. Johnson (412).....8 E. Long St.

Dayton

Rufus Lisle (438).....Winters Bank Bldg.

Geneva

J. Earl Miller (267).....Miller Bldg.

Massillon

Charles N. Hostetter (329)....716 Lincoln Way, E.

Springfield

H. S. Kissell (5).....927 1st Natl. Bk. Bldg.

Toledo

Claude A. Campbell (211)....707 Ohio Bank Bldg.
 Edmund T. Collins (522).....145 Superior St.
 Geo. P. Crosby (252).....413 Madison Ave.
 Howard Etchen (136).....725 Adams St.
 Donald F. Hiett (296).....622 Jefferson Ave.
 John R. Schackne (529).....507 Produce Exchange Bldg.

OKLAHOMA

Tulsa
 Clyde A. King (432).....310 Beacon Bldg.

OREGON**Portland**

Norman B. Plummer (447)....201 Post Office Bldg.

PENNSYLVANIA**Bethlehem**

Wm. C. Bader (163).....214 Odd Fellows Bldg.

Erie

Carl G. Wright (361).....204 Marine Bank Bldg.

Harrisburg

Evan J. Miller (148).....213 Locust St.

Lancaster

Harry W. Butts (114).....24 E. Orange St.

Lansdowne

W. Raymond Evans (118)....19 N. Lansdowne Ave.

Leviston

E. Dale Fisher (520).....136 Valley St.

Philadelphia

Philip N. Arnold (174).....123 S. Broad St.
 Boyd T. Barnard (237)....Lincoln Liberty Bldg.
 Frederick A. Bond (380).....5433 Baltimore Ave.
 E. L. Carlson (62).The Parkway at Fairmount Ave.
 C. Harris Colehower (145).....5942 Chestnut St.
 Frank P. Felton, Jr. (268).....914 Lincoln Liberty Bldg.
 Samuel T. Hall (257).....1500 Locust St.
 Roy A. Heymann (362).....213 S. Broad St.
 C. Harry Johnson (238).....Packard Bldg.
 S. Craig Kane, Jr. (253).....511 Land Title Bldg.
 Phillip W. Kniskern (1).....1614 Walnut St.
 J. Howard McLaughlin (372).....5512 Florence Ave.
 Maurice R. Massey (276).....S. E. Cor. 18th & Green Sts.
 William I. Mirkil (226).....1500 Walnut St.
 Robert J. Nash (254).....1214 Locust St.
 Glyndon Priestman (420).....18 W. Chelten St.
 Richard J. Seltzer (255).....15th & Locust Sts.
 J. Willison Smith (239).....100 S. Broad St.
 Martin Stotz (55).....514 Land Title Bldg.
 Ambrose J. Winder (207).....1420 Walnut St.

Pittsburgh

J. W. Cree, Jr. (13).....211 Fourth Ave.

Seranton

C. G. Chappell (376).....Bliss Davis Bldg.

Wilkes Barre

C. A. Leighton (135).Deposit & Savings Bk. Bldg.

Edward L. Lewith (227)....428 Miners Bk. Bldg.

RHODE ISLAND**Providence**

Hal Forrester Coombs (172)....211 Waterman St.
 James Devine (130).801 New Industrial Tr. Bldg.

Richard A. Hurley (513)....723 Hospital Trust Bldg.

TENNESSEE

Memphis	
Percy Galbreath (421)	Columbian Mutual Tower
George W. Person (320)	503 Manhattan Bk. Bldg.
W. H. Prince (374)	Parkview Hotel Apts.
Nashville	
J. W. Denis (140)	535 Church St.

TEXAS

Beaumont	
J. S. Edwards (444)	San Jacinto Bldg.
Dallas	
Ballard Burgher (398)	617 Republic Natl. Bk. Bldg.
Henry S. Miller (277)	405 Southland Life Bldg.
Lawrence Miller (386)	2729 South Boulevard
John W. Pat Murphy (384)	1420 Commerce St.
Fort Worth	
Meredith R. Carb (354)	2547 Greene Ave.
Houston	
W. G. Burchfield (274)	803 2nd Natl. Bk. Bldg.
L. A. Casey (353)	510 Esperon Bldg.
San Antonio	
Paul W. Adams (355)	Builders Exchange Bldg.
A. H. Cadwallader, Jr. (352)	Moore Bldg.
Claris M. Elmore (356)	1031 Navarro St.
R. W. Patton (317)	614 Travis Bldg.

VIRGINIA

Alexandria	
J. Arthur Younger (311)	Belle Haven
Richmond	
John W. Bates (240)	723 E. Main St.
Henry S. Raab (260)	710 E. Main St.
John Sloan (241)	18 N. 8th St.
J. Guthrie Smith (144)	5104 Riverstone Drive
Morton G. Thalhimer (221)	1013 E. Main St.

Associate Members**CONNECTICUT**

Stamford	
Robert S. Hay (14)	300 Main St.

FLORIDA

Miami	
W. Carroll Wilson (21)	713 Ingraham Bldg.

GEORGIA

Waycross	
George Fesperman (5)	208 Parker St.

ILLINOIS

Springfield	
John J. Savage (23)	620 Illinois Bldg.

INDIANA

South Bend	
Richard A. Muessel (18)	205 Income Bldg.

MICHIGAN

Flint	
Herschel S. Green (16)	904 Citizens Bank Bldg.
Grand Rapids	
Peter Hoek (19)	750 Leonard St., N. W.

Muskegon	
William Bush (3)	38 Diana Ave.

WASHINGTON

Seattle	
Nathaniel B. Bender (347)	302 Republic Bldg.
Charles P. Burnett (378)	Box 1860
Leonard Downie (296)	Seattle
Wm. A. Eastman (307)	414 University St.
Walter G. McLean (346)	1108 Third Ave.
J. C. McQuigg (344)	1910 N. 39th St.
A. C. Newell (348)	448 Dexter Horton Bldg.
Ben J. Smith (343)	5255 16th Ave., N. E.
J. H. Sparkman (349)	1108 3rd Ave.
Cecil S. Van Voris (369)	1817 Exchange Bldg.
Edwin G. Wendland (342)	845 Bellevue Ave., N.
J. Arthur Younger (311)	1233 E. 88th St.

Spokane

Edward Ross McCory (425) 505 Columbia Bldg.

Walla Walla

C. C. Conner (263) First National Bank

WEST VIRGINIA

Bluefield	
T. O.J. Wilson (293)	409 Peery Bldg.

Charleston

Charles Uhrig (79) Box 1019, Charleston Natl. Bk. Bldg.

Clarksburg

Lyle B. Hornor (375) Goff Bldg.

Huntington

H. E. Pilcher (371) 926 6th Ave.

WISCONSIN

Madison	
Henry H. Bush (61)	311 State St.

Milwaukee

K. Lee Hyder (185) 525 E. Michigan St.

ONTARIO, CANADA

London	
Bert Weir (138)	156½ Dundas St.

Toronto

Cyril R. De Mara (12) 372 Bay St.

Frank McLaughlin (7) 34 King St., W.

NEW JERSEY

Elizabeth	
R. Mason Kirkland (15)	125 Broad St.

James Rosensohn (22) 125 Broad St.

Keyston

Samuel De Bow Walker (10) 101 Atlantic Ave.

NEW YORK

Mount Vernon	
Henry F. Linsmann (17)	126 Burkewood Rd.

PENNSYLVANIA

Williamsport	
Fred B. Wetzel (12)	25 W. Third St.

RHODE ISLAND

Pawtucket	
Leo V. Boyle (4)	44 Broad St.

Austin

Jos. Ewing (8) 704 Littlefield Bldg.

Wilhelmine B. Sheffield (20) 207 W. 7th St.

Dallas

Alfred J. Beilharz (13) 6401 Hillcrest Ave.

TEXAS

Wheeling	
Harry C. Miller (7)	313 Wheeling Steel Bldg.

